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The U.S. and Central America:

Implementing the National Bipartisan Commission Report

Report to the President
From the Secretary of State

August 1986

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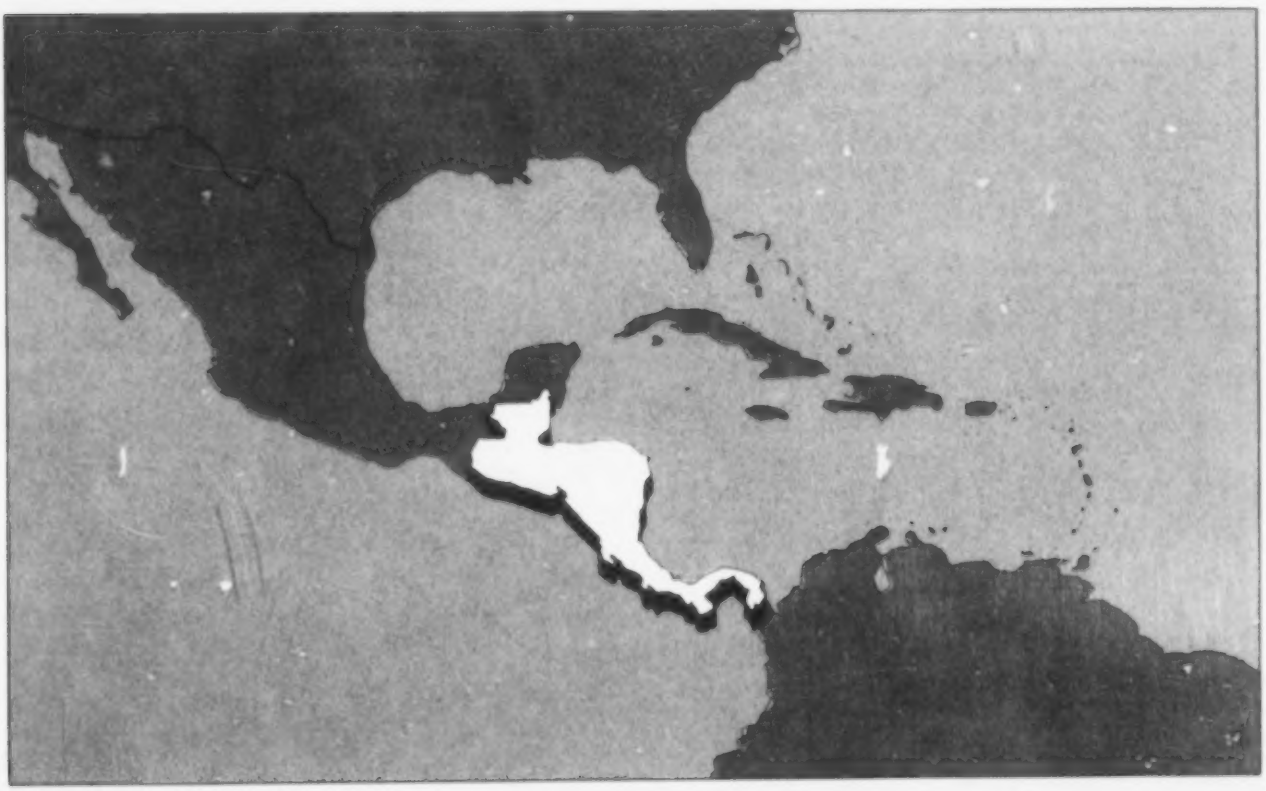

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All photos courtesy of the Agency for International Development

Letter of Transmittal

July 16, 1986

Mr. President:

In August 1984 the initial appropriations to implement the recommendations of the National Bipartisan Commission on Central America were approved. In August 1985 the plan you requested to implement the new bipartisan approach became law. Today, I can report to you that the nations of Central America, once relatively neglected by the United States, are receiving the attention they deserve as close neighbors with whom we share both democratic values and security interests.

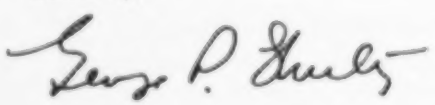
The challenges are enormous, but positive results are beginning to show. Just a few years ago Costa Rica was a democratic island in a sea of dictatorship. Today, Costa Rica has been joined by democratic governments in Honduras, El Salvador, and Guatemala. Nicaragua, where even religious and press freedoms are denied, is now the exception to a new democratic norm.

Democratic government, however, is only the beginning. Democratic institutions work best when individuals can exercise free initiative in intellectual and economic life as well as politics. The National Bipartisan Commission recognized this reality. So does U.S. policy.

The United States is now helping Central Americans realize the benefits of individual development, economic growth, and human rights as well as self-government. In addition to helping the region's governments to develop fair electoral processes, we are working with them to create jobs; strengthen the administration of justice; and improve health, education, and free markets.

In short, U.S.-Central American cooperation now extends to fundamental issues of individual and societal well-being as well as to immediate problems of subversion and security. Our joint efforts are leading to a better future for Central America. They do credit to the bipartisan, humanitarian ideals of Senator Henry Jackson, to whom the Commission's work was dedicated.

Sincerely,



George P. Shultz

I. Assessment

A Plan for Democracy, Peace, and Development

The National Bipartisan Commission on Central America reported to the President on January 10, 1984, that the fundamental strategic and moral interests of the United States require a long-term national commitment to economic opportunity, human development, democracy, and security in Central America.

In August 1984, a bipartisan majority in the Congress approved the first in a series of substantial increases in U.S. assistance for Central America. Whereas U.S. economic assistance to Central America had totaled $186 million as recently as fiscal year (FY) 1980, U.S. economic support has averaged almost $900 million each year since FY 1984.[1] At the same time, military assistance, which in 1980 totaled $29 million, has averaged about $250 million.

While less than what the Commission recommended and what the President proposed, these additional resources have made it possible to support people, activities, and programs that are bringing lasting improvements to Central American life. The challenge now facing the United States is to sustain this promising beginning with the kind of long-term national commitment that the Commission envisaged.

A Comprehensive Strategy

Economic and military assistance is provided within the framework of a long-term plan that implements the Bipartisan Commission report. This comprehensive strategy is helping to address the root causes of poverty and social unrest, to foster equitable development, and to support democratization in a region famous for its history of dictatorships.

The plan's strategy for development is to:

- Support democratic processes and institutions by backing free and competitive elections, the administration of justice, technical training, and the development of leadership skills;
- Stop declines in income, employment, and economic activity by providing major balance-of-payments support;
- Build the foundation for long-term economic growth by supporting improvements in economic policy and the infrastructure needed for efficient production and diversified exports; and
- Assure the widest possible distribution of the opportunities and benefits of growth by helping to create jobs and improve health, education, and housing for the poor.

The objective of military assistance is to create a shield to protect democratization and growth. The improved performance of the Armed Forces of El Salvador and the increased defensive capability of the military in Honduras relies in part on U.S. security assistance to meet concrete needs with a promptness and reliability that can be counted on by both the planners and the men under fire. In Costa Rica, assistance to the Rural and Civil Guard increases their ability to protect Costa Rica's citizens and borders.

Complementing these development and security policies, U.S. diplomacy supports negotiations both within and among the countries of Central America to bring about the reconciliation needed to achieve socioeconomic progress, national security, and lasting peace.

> ***"From the U.S. Congress we seek a positive commitment to continue to fund the action plan of the National Bipartisan Commission . . . at levels sufficient to further peace, democracy, and development in Central America and to serve as a positive incentive for change in Nicaragua."***
>
> **Secretary Shultz, June 13, 1986**

Key Judgments

Two years into the implementation of this comprehensive strategy, it can be said that:

The strategy is sound. There is broad agreement that the four elements of the development strategy are addressing the region's fundamental economic, social, and political problems. There is similar agreement that military performance has improved and is helping to protect democratic gains.

How rapidly further progress takes place will depend on the energy and tenacity of Central Americans in their quest for development, the pace of internal reforms, external economic factors, the degree of success in quelling violence, and the constancy and volume of external assistance.

[1] Unless otherwise specified, all figures in this study exclude Nicaragua, which has since 1981 either rejected or rendered itself ineligible for U.S. assistance. Nicaragua received $38.7 million of the FY 1980 total (21% of U.S. aid to Central America), all of it going to reconstruction after Somoza's fall, when the governing junta still included democratic leaders.

Progress toward institutionalizing democratic processes and respect for human rights is substantial. Democratic institutions in El Salvador, Honduras, and Guatemala are still fragile and need support, but progress has been more rapid than anticipated. The key exception is Nicaragua, whose communist Sandinista government continues to work actively against the democratic trend both at home and abroad. Elsewhere, the 1985 resignation of Panama's elected president is the only major recent setback.

Since May 1984, El Salvador, Guatemala, Honduras, and Costa Rica have held strongly competitive presidential elections. All were open and honest. Substantial human rights progress has been made in El Salvador and Guatemala, where Presidents Duarte and Cerezo have provided new political leadership and democratic authority. In El Salvador, U.S. military assistance is making possible counterinsurgency tactics using increased mobility, better training, and more appropriate equipment and force levels—which are both more effective from a military standpoint and more in keeping with internationally recognized standards of human rights.

National commissions to recommend improvements in the judicial system have been established in each of the democracies. Salvadoran criminal investigators have achieved impressive results with additional training and equipment. The Center for Electoral Assistance and Promotion and the UN-affiliated Latin American Institute for Crime Prevention have both increased their activities in Central America with U.S. assistance.

The economic picture is improving gradually, but major problems persist. The economic slide of the early 1980s gave way to modest real growth in 1984 and 1985. With U.S. support, the democratic governments have all taken steps to reduce public sector deficits, promote the private sector, and encourage foreign investment. Large-scale capital flight has ended. New lines of exports are being developed.

Despite these positive signs, difficult economic problems remain. High unemployment continues. Balance-of-payments deficits averaged $330 million in 1985. Inflation has moderated in Honduras and Costa Rica but remains a problem in El Salvador and Guatemala. Continued armed conflicts damage both the investment climate and government development efforts.

Declines in global oil prices and interest rates and increases in coffee prices are good news for Central American countries, but are offset by the continuing decline of most commodity prices and the sluggish economic growth of many of Central America's industrial customers.

Some social trends are encouraging. Health and education indicators reveal measurable progress. Infant mortality is down. The number of people receiving immunizations, food assistance, potable water, and basic educational opportunities is up.

Development takes time. It was only in 1986 that economic policy reforms were put into place in Guatemala, El Salvador, and Honduras. The impact of our assistance will not be fully felt for some time. Further adjustments may be needed to improve economic efficiency and export competitiveness; similarly, continued high levels of foreign assistance may be needed beyond 1989 if broadly based, self-sustaining economic growth in the 6% range characteristic of the 1960s and 1970s is to be restored. Certainly, earnings from new lines of exports are unlikely to substantially increase financial resources for some years.

Key Facts on the Commission

The National Bipartisan Commission on Central America (referred to in this study as "the Commission") was named in July 1983 by President Reagan to advise on "a long-term United States policy that will best respond to the challenges of social, economic, and democratic development in the region and to internal and external threats to its security and stability."

Henry A. Kissinger served as Commission Chairman. The Commissioners were: Nicholas F. Brady, Henry G. Cisneros, William P. Clements, Jr., the late Carlos F. Diaz-Alejandro, Wilson S. Johnson, Lane Kirkland, Richard M. Scammon, John Silber, Potter Stewart, Robert S. Strauss, and William B. Walsh. Senior Counselors were Jean Kirkpatrick, Winston Lord, William D. Rogers, Daniel K. Inouye, Pete V. Domenici, Lloyd Bentsen, Charles McC. Mathias, William S. Broomfield, Jack F. Kemp, James C. Wright, and Michael D. Barnes. Harry W. Shlaudeman served as Executive Director.

The Commission submitted its report to the President on January 10, 1984. The complete text was published commercially as *The Report of the National Bipartisan Commission on Central America* (N.Y.: MacMillan Publishing Co., 1984).

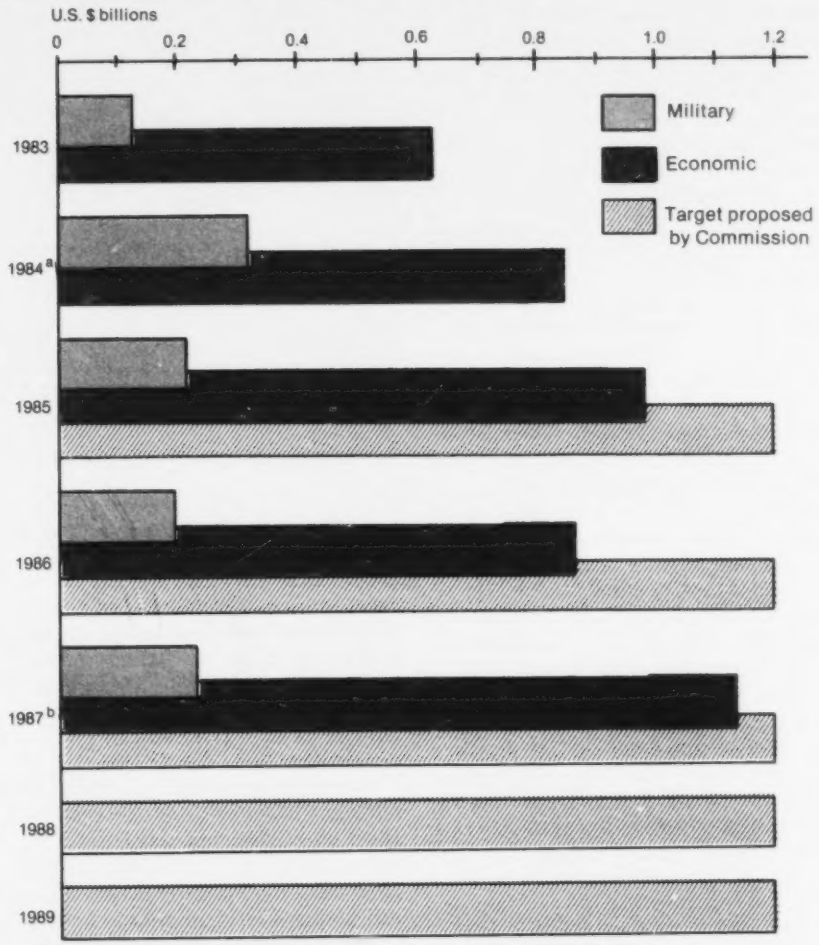
U.S. funding shortfalls are becoming a severe constraint. Although they did not seriously impede the program in the first 2 (startup) years, shortfalls in funding present a severe constraint for 1986 and beyond. Increased assistance is needed to meet the continued Sandinista threat and to consolidate the success of democratic forces in Guatemala. Yet the cumulative shortfall from the levels recommended by the Commission will be $538 million by the end of FY 1986.

The additional $300 million approved recently by the House of Representatives, if enacted into law, will narrow the gap for FY 1986 but not beyond. Prospects are bleak for the levels requested in the President's budget for FY 1987, let alone the levels requested by the Commission for FY 1988 and 1989.

Any sharp reduction in U.S. assistance levels would seriously jeopardize the gains made thus far and would break faith with the elected leaders of these countries. In working with us to achieve political, economic, and social goals we encourage, Central America's democratic men and women count on our support. They and their countries are still in midpassage; the dependability and credibility of the United States as a friend and ally are still at stake.

In summary, the events of the past 2 years make clear that U.S. support for Central America's development and security is bringing progress to the region. But maintaining this momentum still requires both the *reliability* of a long-term U.S. commitment and the *confidence* that this commitment will continue to be tied to equity, reform, and freedom. For a region so close to our own borders, no other outcome is compatible with the strategic and moral interests of the United States.

U.S. Bilateral Assistance to Central America, FY 1983-89



[a] Includes 1984 supplemental appropriation.

[b] 1987 request.

Central America Defined

There are seven sovereign nations on the isthmus between Colombia and Mexico—Panama, Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, and Belize—but not all are necessarily included when the term "Central America" is used.

For purposes of addressing the Central American security and diplomatic crises, the Commission focused on five countries: El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica. This is the same definition as that of the Contadora process. These states together made up the Captaincy-General of Guatemala during the Spanish colonial period and have shared traditions and cultural similarities.

For purposes of addressing Central American economic and political development, however, the Commission included Belize and Panama. Unless otherwise noted, economic data cited in this report is for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama. Nicaragua does not publish up-to-date data on its economic performance and has excluded itself from U.S. development activities.

The Commission recommended financial support not only for economic and social development but also to promote more open, democratic political systems and to improve judicial systems.

The Commission reasoned that the roots of Central America's crisis are political as well as economic, that the lack of participatory democracy aggravates the problems of underdevelopment. Weak institutions deny citizens opportunities to correct abuses and bring about peaceful change. The absence of democracy, the Commission concluded, is all too readily exploitable by antidemocratic forces of both left and right.

Defying Pessimism

When the Commission reached these conclusions, many in the United States, Western Europe, and even Latin America still believed that the only alternatives to military dictatorship in Central America were anarchy or communism. Even many Central Americans did not give their democratic leaders much of a chance against either the old dictators or the new Marxist-Leninists and their foreign sponsors and allies.

The prevailing pessimism made what actually happened all the more impressive.

Belize achieved independence in 1981 and has remained democratic. The opposition United Democratic Party, led by Manuel Esquivel, won control of Parliament in the first postindependence national election in December 1984. Power was transferred peacefully.

Costa Rica is the historic bastion of free opinion and democratic government in Central America. Costa Ricans date their democracy, with few interruptions, to the election of 1889. During 1985, the political parties of Costa Rica selected candidates; after a close and typically open campaign, general elections were held on February 2, 1986. On May 8, 1986, Luis Alberto Monge transferred the reins of government to a new social-democratic president, Oscar Arias Sanchez. A new parliament also was invested. Costa Rica's democratic achievements have made it the headquarters of several institutions that support democracy in Central America.

El Salvador—when the Commission issued its report—seemed caught in an endless war between guerrillas of the left and death squads of the right. The Commission concluded that electoral democracy, reform, and political dialogue were realistic alternatives to violence—provided El Salvador's democrats received U.S. support. The United States is following the Commission's prescription.

Despite guerrilla opposition, free and open nationwide elections were held in 1982, 1984, and 1985 without effective disruption. When long-time reformer Jose Napoleon Duarte was able to compete, win presidential elections, and take power, it became apparent that democracy could win in practice as well as in theory. Democratic institutions and habits have gained steadily ever since. Although some indiscriminate violence continues, most of it is perpetrated by the guerrillas.

> ***"Democratization is the key to peace in Central America."***
>
> **Oscar Arias,**
> **President of Costa Rica,**
> **May 10, 1986**

The lessening of violence and continuing democratization are opening El Salvador's political life to legal nonviolent opposition from the left as well as the right. U.S. policy continues to support El Salvador's maturing democracy, encouraging dialogue with all those guerrillas willing to put their views to a competitive vote. An embryonic social democratic party has been formed. Mid-level members of two of the leftwing parties that backed the guerrillas in 1980 and whose cadres had been in self-imposed exile (the Popular Social Christian Movement and the National Revolutionary Movement) continue to return and have carried out political activities without incident.

Guatemala, Central America's most populous country, also is making decisive progress in democratization. After a generation of military rule and political violence, open and highly competitive general elections in November and December 1985 culminated a process begun in July 1984 with the election of a Constituent Assembly. The military government kept its word to hold a free vote; observers from other nations concluded that the elections were conducted in an orderly, fair manner. In January 1986 a freely elected civilian government took office in Guatemala.

President Vinicio Cerezo, a Christian Democrat, has a national mandate from two-thirds of the electorate. Violence and poverty pose enormous challenges. Guatemala's 8 million people, half of whom are Indians, expect an improved quality of life—in terms of their physical security as well as their living standards—from their new government. This will require efforts to promote economic and social development as well as measures to curtail political and criminal violence.

In the spring of 1986, the new government enacted comprehensive economic reforms to stimulate the economy, encourage savings and investment, and provide new job opportunities. Considerable external assistance also will be needed to support institutional development and economic growth at levels to sustain Guatemala's ongoing democratization.

Honduras also is demonstrating that democracy in Central America has the vitality to work even under great pressures of poverty, lack of democratic traditions, and externally supported subversion. Presidential elections were held without incident in 1981 and 1985, and the results were respected. In each case, the winner was a leader from the opposition.

Strains prior to the 1985 election caused concern, particularly an attempt by the legislature to impeach members of the Supreme Court and an attempt by a faction of legislators to delay the elections. In both cases the military and strong public opinion—including labor, peasant organizations, and the Catholic Church—supported constitutional proc-

esses. National presidential, legislative, and municipal elections in November 1985 were orderly, open, and enthusiastically celebrated. When Dr. Roberto Suazo completed his term in January 1986, he was succeeded by President Jose Azcona. The transfer of power from one elected civilian to another was the first in Honduras in 53 years.

Nicaragua is increasingly isolated by the antidemocratic policies of the Sandinistas. In its report, the Commission noted that:

> ...the development of an open political system in Nicaragua, with a free press and an active opposition, would provide an important security guarantee for the other countries of the region and would be a key element in any negotiated settlement.

Regrettably, the Sandinistas have moved in the opposite direction, away from the open, pluralist system they originally promised their people and the Organization of American States (OAS).

The Nicaragua of 1986 is less democratic, more heavily armed, and more closely tied to the Soviet bloc than ever before. Since the failure to allow competitive elections in 1984 (see the discussion of internal reconciliation in Section VII), repression of religious groups, the press, and opposition political parties has been continuous and increasingly severe.

Just as the Somoza dictatorship ultimately sparked national rebellion, so the *comandantes'* communism is breeding internal resistance. At the same time, the military threat posed by the Sandinistas hampers progress toward democracy elsewhere in Central America. The Sandinistas' hostility toward the Nicaraguan people and their alliance with the Soviet bloc against democratic neighbors are Central America's most pressing security problem.

In Panama, the presidency of Nicolas Ardito Barletta, hampered by allegations of inefficiency, lasted less than a year. In late September 1985, Barletta resigned, under pressure from the Panama Defense Forces, and was replaced by first Vice President Eric Arturo del Valle.

Panama remains a basically open society, but this episode tarnished the government's democratic claims and must be counted a setback to regional democratization.

The Esquipulas Summit. The centrality of democratization to Central American life today was evident at the summit attended by the Presidents of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua held in Esquipulas, Guatemala, in May 1986.

Noting that disagreements persisted among them on "the structure of power in a pluralistic democracy" (a veiled reference to the Sandinistas' claim that their "vanguard" status entitles them to monopoly power), the Presidents agreed that:

> ...peace in Central America only can be the result of an authentic democratic, pluralistic, and participative process that promotes social justice, respect of human rights, sovereignty and territorial integrity of the states, and the right of all nations to freely determine, without any type of external interference, their economic, political and social model, interpreting this determination to be the product of the freely expressed will of the people.

It was evident that these words meant something different to the Nicaraguan President than to the Presidents of Costa Rica, El Salvador, Honduras, and Guatemala.

Increasing U.S. Support

The United States has long supported free democratic institutions, such as trade unions, private voluntary organizations, and cooperatives. In addition, U.S. programs that help sustain equitable economic growth foster the social and political stability necessary to the survival of democratic institutions.

To implement Commission recommendations and support Central America's own efforts to build democratic institutions, the United States has used all of these tools and more. For example, using an approach found effective in the past, the United States Information Agency (USIA) has increased its programming of U.S. speakers traveling to Central America and of Central Americans invited to the United States as international visitors to discuss democratic processes.

New methods to cooperate also have been developed, prominent among them the growing number of public and private activities to strengthen administration of justice and assist in the application of equitable electoral procedures.

Nongovernmental efforts to strengthen democratic development abroad also have increased, particularly those of the National Endowment for Democracy and affiliated institutes of the U.S. Chamber of Commerce, the AFL-CIO, and the Republican and Democratic Parties.

Administration of Justice

The ILANUD Project. The Latin American Institute for the Prevention of Crime and Treatment of Offenders (ILANUD) is a UN-affiliated institution whose headquarters have been in San Jose, Costa Rica, since its founding in 1975. In March 1985, the Agency for International Development (AID) and ILANUD signed an agreement enabling ILANUD to greatly increase its ability to assist the Governments of Costa

"Too often in the past, the United States failed to identify with the aspirations of the people of Central America for freedom and a better life. Too often our government appeared indifferent when democratic values were at risk. . . . Today, however, with American support, the tide is turning in Central America. In El Salvador, Honduras, Costa Rica—and now in Guatemala—freely elected governments offer their people the chance for a better future."

President Reagan,
June 24, 1986

Sustaining the Flow of Ideas

Communist rule in Nicaragua has severely reduced the free flow of information inside Nicaragua and created a new body of antidemocratic literature circulating throughout Central America. Nicaraguan Government publishing houses run by the Sandinistas have disseminated hundreds of thousands of political volumes since 1981. The only independent daily newspaper permitted in Nicaragua, *La Prensa*, was heavily censored before being closed indefinitely on June 26, 1986.

To sustain the free flow of ideas, the National Endowment for Democracy supports *Libro Libre*, a publishing house founded in 1984 in Costa Rica to produce books and a monthly magazine on the development and protection of free political and economic institutions; 63,000 copies of 29 paperbacks were produced and disseminated by *Libro Libre* in its first 18 months.

Rica, El Salvador, Guatemala, Honduras, and Panama in their efforts to improve their justice systems.[2]

This 5-year program has three principal components.

First, ILANUD is carrying out training courses for judges, prosecutors, and other judicial system personnel from the participating countries. A variety of courses already have been successfully held, including special sessions for judges, prosecutors, defenders, legislators, and administrators. ILANUD also sponsors scholarships for public officials to do postgraduate study at the University of Costa Rica law school.

Second, ILANUD is providing technical assistance to each participating country to improve the collection of criminal statistics, to modernize information systems, to develop better law libraries, and to supply basic commodities for courtrooms such as typewriters, desks, and chairs.

[2]The Dominican Republic also is a participant under the March 1985 agreement A July 1986 amendment provides funding for participation by other Latin American nations in ILANUD programs. These include: Bolivia, Colombia, Ecuador, Mexico, Peru, Uruguay, and Venezuela.

Third, ILANUD is helping each participating country develop programs suited to its particular judicial system and problems. To that end, each country has formed a national commission bringing together high-level respresentatives of different sectors of the country's legal community to design and implement a plan for judicial system reform. ILANUD is working closely with each of these national commissions; a number of country-specific projects are already underway.

Bar Associations. AID has provided a grant to the Inter-American Bar Foundation to help establish and strengthen linkages among bar associations in Central America. AID and USIA provided grants to the American Bar Association (ABA) to invite Central Americans and others to the ABA annual meeting and to organize a workshop for the visitors. Funds also were made available to the Inter-American Bar Association to hold the First Inter-American Judicial Conference in Mexico in November 1985. Judges, court administrators, and bar executives attended a series of workshops on practical problems of judicial structure and ways in which the bar associations could work to improve the administration of justice.

Professional Exchanges. In January-February and again in June-July 1986, USIA offered month-long programs in Spanish on the U.S. legal system, which gave Latin American judges and other practitioners an opportunity to travel together and learn firsthand about the administration of justice in the United States. From Central America, the participants included four Salvadorans, two Nicaraguans, three Guatemalans, and one each from Honduras, Costa Rica, and Panama. The opportunity to exchange views among themselves as well as with U.S. professionals at all levels of the judicial system should enable them to return to their positions with new ideas to approach the practical problems they face. Central Americans are also participating this year in month-long USIA multiregional programs on the administration of courts, legal education, and the American legal system. Four Honduran jurists will participate in a similar one-country program.

One way to fight...all who abuse human life and dignity is to develop the capacity of our legal systems to render independent, fair, timely, and accessible justice.... It is fundamental that in a democratic society all citizens have access to means for effective enforcement of their civil, political, economic, and social rights.

Secretary Shultz, November 12, 1984

Training for Criminal Investigators. The Department of Justice is beginning a new program, the International Criminal Investigative Training Assistance Program (ICITAP), organized within the office of the U.S. Deputy Attorney General. ICITAP seeks to improve the skills of investigators who develop evidence for judges and prosecutors. ICITAP officials have consulted with Central American officials responsible for the collection, analysis, and presentation of evidence for criminal justice systems to determine needs and design specific projects. Training in identified areas is now beginning.

Electoral Assistance

The Inter-American Institute for Human Rights, with AID assistance, has established the Center for Electoral Assistance and Promotion (CAPEL). Located in San Jose, this private, nonpartisan institution promotes free and fair elections in Central America and throughout the hemisphere. At the request of governments, CAPEL has sent observers to the national elections in the region and cosponsored a series of training courses on election laws and procedures. CAPEL is developing a data center for materials on electoral legislation and will maintain permanent records of election results in the region. Although relatively new, CAPEL has gained valuable experience and should become increasingly effective in strengthening free democratic electoral processes in the region.

In 1984 U.S. support enabled El Salvador's Central Elections Council to modernize and improve its registration and vote tabulation procedures, to con-

Political pluralism requires sensitivity to local culture and needs. The future holds more promise for Indian children learning Spanish through a bilingual education program initiated by the Guatemalan Government and AID.

duct a broader public education campaign on eligibility requirements and voting procedures, and to expand the number of international observers at the May 1984 presidential election. The system developed also was employed for the March 1985 legislative and municipal elections.

CAPEL cooperated with Guatemala's National Electoral Tribunal to train polling officials. CAPEL also worked with a local nonpartisan private organization that trained poll watchers from individual political parties. In addition, AID provided funding to the Guatemalan Election Tribunal to purchase the watermark paper which was used to guarantee the authenticity of each ballot.

In Honduras, AID helped the National Electoral Tribunal to develop a nonpartisan, comprehensive national voter registration system. The United States provided funding for ballot boxes, as well as commodities such as photographic and computer equipment for the electoral registry and bond paper and marking ink that helped guard against electoral fraud.

Scholarships for Central Americans

USIA-sponsored scholarships for Central Americans to attend U.S. institutions have increased impressively since 1984.

	FY 1984	FY 1985	FY 1986
Graduate Students	20	110	252
Resident Scholars	11	12	36
Lecturers	3	8	10
Faculty Development	9	34	66
Undergraduates	0	0	154
TOTAL[1]	43	164	518

[1]Totals include Fulbright, university-linkage grants, and CAMPUS (Central American Program for Undergraduate Scholarships).

Legislatures

To strengthen these key democratic institutions, the United States has helped the legislatures of Honduras, Guatemala, and El Salvador to design and conduct training programs for their members and to begin developing permanent support systems that will strengthen their capacity to participate in democratic decisionmaking.

These legislative training and support programs draw on the successful experience of the Congress of the Dominican Republic. Specialists who were instrumental in designing the Dominican program provided technical assistance to legislators in Honduras and Guatemala who, in turn, designed and conducted their own training seminars for newly elected members. The Legislative Assembly of El Salvador is planning a similar seminar for September 1986. All three legislatures have initiated plans to establish permanent training programs, legislative research bodies, and administrative support systems that will enhance their capacity for analysis and informed decisionmaking.

III. Economic Stabilization

Between 1980 and 1983, the value of goods and services produced declined steadily as Central America underwent a severe economic contraction. Per capita income fell 15% on average over the period. Costa Rica and El Salvador suffered particularly severe declines. In Costa Rica, the external debt reached 140% of gross domestic product (GDP). In El Salvador, guerrilla warfare caused more than $1 billion in damage and disinvestment. Guerrilla-induced uncertainties also affected Guatemala, which later experienced additional difficulties during the transition from military to democratic government. Panama managed to avoid economic difficulties until 1983, when trade cutbacks by other Latin American countries adversely affected its shipping, warehousing, and other regional service sectors.

The first step to reactivation, the Commission concluded, was to stop this pattern of general economic deterioration.

Halting Declines in Output

After falling slightly (−0.6%) in 1983, regionwide production rose by about 1.6% in 1984. Large-scale U.S. economic assistance provided critical support for internal efforts to stem the decline.

In 1985, the estimated regional growth rate slipped slightly to 1.0% because GDP in Guatemala, which accounts for about 40% of total production in the region, fell by 1.3%. All other countries had positive growth rates. Only Honduras and Panama, however, achieved economic growth higher than population growth.

In El Salvador and Honduras, U.S. assistance has helped halt the economic downturns. However, private investment, often the engine of growth, remains depressed in both countries. World prices for major export commodities remain generally depressed, and a slowdown in the growth of the world economy restricted the opportunities for export diversification and expansion in 1985.

Costa Rica's growth slowed in 1985, due primarily to banana plantation closures, wind damage which cut the amount of fruit available for export, and a slower rate of growth in the money supply. A return to more rapid growth is expected in 1986. Growth in Belize was constrained by the depressed world sugar market.

Panama has cut its fiscal deficit, and a resurgence of trade through the canal led to a 3.3% increase in the GDP in 1985.

Guatemala's economic difficulties in 1985 were due largely to a severe crisis of confidence in the economic policies of the outgoing military government. There was substantial capital flight and a sharp decline in private investment. A decline in government expenditures due to falling tax revenues also reduced the level of economic activity, contributing to growing unemployment.

Prospects for 1986 are more favorable. Regional GDP is expected to grow by about 2.4%, which would be the best performance in 8 years.

Balance of Payments

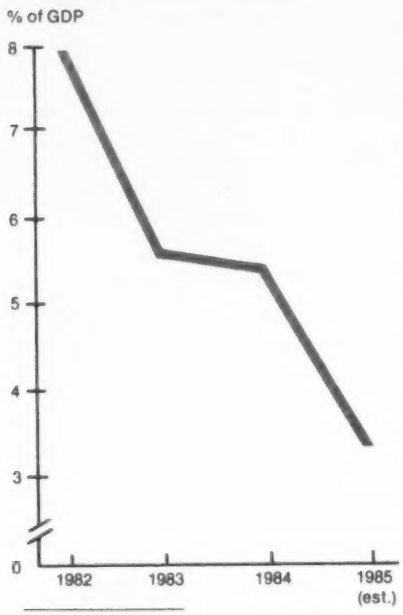
The region's current account deficit has gone from an average of $1.7 billion in 1980–81 to an average of $1.1 billion in 1983–85. However, two-thirds of this improvement is due to increased official transfers, mainly U.S. economic support fund (ESF) grants. Honduras, Costa Rica, Belize, and El Salvador all had increases in GDP.

Trends in private capital movement are a key signal of private sector confidence and a determinant of potential investment. Private capital flowed heavily out of Central America in 1980. This trend now appears to have been halted, if not reversed. While short-term outflows averaged $476 million in 1980–83, there was a net inflow averaging $62 million in 1984–85.

From 1981 to 1984 direct private foreign investment in Central America steadily declined. While the decline appears to have stopped, the estimated 1985 figure of $213 million represents only a slight recovery from the depressed level of 1984. This disappointingly slow recovery reflects, among other things, continued security concerns, delays in policy reforms to stimulate investment in new export-oriented activities, and the time lag required for policy changes to yield tangible benefits.

> ***"In 1977, 1 barrel of oil was worth 5 pounds of coffee or 155 pounds of sugar. To buy that same barrel of oil [in 1982], these small countries must provide five times as much coffee (nearly 26 pounds) or almost twice as much sugar (283 pounds). This economic disaster is consuming our neighbors' money, reserves, and credit, forcing thousands of people to leave...and shaking even the most established democracies. And economic disaster has provided a fresh opening to the enemies of freedom, national independence, and peaceful development."***
>
> **President Reagan, February 24, 1982**

Central America: Government Fiscal Deficits, 1982-85 [1]



[1] Regional weighted average based on data for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama.

Sources: AID and International Monetary Fund.

Government Fiscal Deficits

The decline in overall economic production reduced revenues, sometimes sharply, and everywhere faster than any corresponding reduction in government expenditures. Because most current spending is for wages, significant budget cuts require politically difficult reductions in employment. As governments turned to borrowing, external debt service rose substantially for nearly all countries of the region.

Improved fiscal performance and higher levels of U.S. assistance have now reduced average fiscal deficits—from 8% of GDP in 1982 to 3.3% in 1985. Some countries have made rapid progress. Costa Rica's budget deficit fell from 9% of GDP in 1982 to an estimated 1.7% in 1985. Panama's deficit fell from 11% in 1982 to 1.5% in 1985. The other countries also have made progress since 1982. In Honduras, the deficit grew in 1981–83—as government investment expenditures rose steadily at a time that revenues were approximately stable—but started to fall in 1984–85.

Inflation

All countries of the region experienced significant inflation in 1980–81, and the situation since then has been mixed.

In Belize, Panama, and Honduras, inflation in 1983–85 approximated U.S. levels. In Costa Rica, inflation surged in 1981–82 as a consequence of previous monetary expansion but began to slow in 1985 as the growth in the money supply was curtailed. In El Salvador, inflation remained above historical levels throughout the period and accelerated further in 1985, as a result of depreciation of the currency and internal economic policies. In Guatemala, inflation surged in 1985 as the government resorted to the printing presses to finance deficits and purchase foreign exchange.

Restoring Vital Services

As the Salvadoran guerrillas perceive that they have lost not only the battle for the minds of the people but the armed struggle itself, they have resorted to terrorizing the country by destroying the economic infrastructure and placing even greater burdens on the people they claim to represent.

In conjunction with Salvadoran public service agencies, U.S. assistance has helped to offset this damage by providing the capacity to react quickly to restore disrupted essential services; 47 AID-financed emergency generators provide standby power to hospitals, water pumping stations, and other essential utilities; 78 Bailey bridges (rapidly erected temporary steel structures to replace sabotaged bridges) have also been provided.

Intraregional Trade

The value of trade within the Central American Common Market (CACM), remains substantially below the levels achieved in the late 1970s and early 1980s. This has had adverse effects on the level of production in several countries, particularly Guatemala. In part, this reflects a major decline in trade with Nicaragua (the largest importer of CACM products in 1980) because of large arrearages on payments Nicaragua owes to other CACM members.

Former Costa Rican President Monge proposed in 1985 an agreement among Costa Rica, Honduras, El Salvador, and Guatemala to make exchange-rate adjustments and revise the Central American external tariff and other CACM instruments so as to revitalize the CACM. The United States has encouraged these efforts.

IV. Economic Growth

The Commission suggested targets of self-perpetuating, export-led growth of 6% (roughly 3% in per capita terms) and an annual increase of 4% in agricultural production by the end of the decade. This would result in an estimated 250,000 new jobs annually, 80,000 in agriculture and 170,000 in other sectors. The private sector, supported by proper policies and financial and technical resources, is key to prospects for attaining these ambitious goals.

Trade and Investment

Trade and investment promotion is prominently featured in U.S. programs for each Central American country. An interagency task force was established in August 1983 to oversee implementation of the President's Caribbean Basin Initiative (CBI) with a mandate that covers both Central America and the Caribbean. The task force is chaired by the U.S. Trade Representative; its members are the Departments of Agriculture, Commerce, Labor, State, and the Treasury, as well as AID, the Overseas Private Investment Corporation (OPIC), the Export-Import Bank (Eximbank), USIA, the Peace Corps, and the International Trade Commission. Each of these agencies has programs designed to help the region diversify and expand its production and exports. The task force coordinates CBI-related activities of all U.S. agencies, strives to enhance their effectiveness, and develops recommendations to the President on potential improvements in the program.

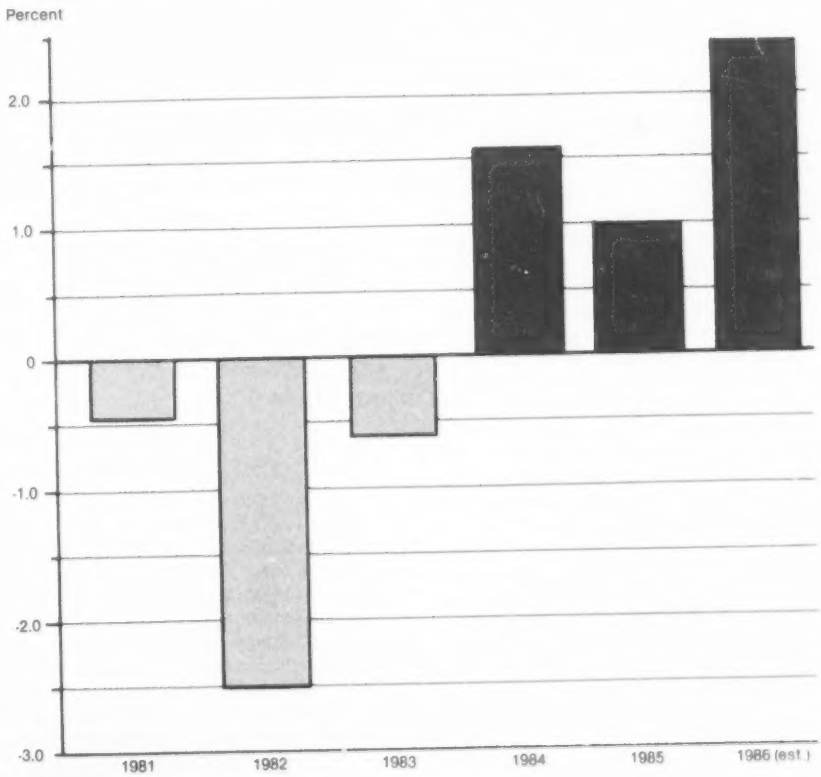
Trade. Trade expansion begins from a low base throughout Central America. New lines of export products are important to Central America's future. Medium- to long-term prospects for sugar, bananas, cotton, and coffee—the main traditional exports—are not promising. If the region is to create the additional export earnings needed to finance imported capital goods, petroleum, and other inputs, export growth will have to come from nontraditional agricultural and industrial products. Initially, these would, of necessity, be labor intensive and cannot be expected to generate major export earnings for some years.

Against this background, initial results of efforts to achieve an export orientation are promising. Between 1983 and 1985, U.S. imports of manufactures from the region rose by 52% to $439 million. U.S. imports of nontraditional agricultural products rose by 79% to $59 million. Costa Rica and Belize had dramatic increases in new exports, and Guatemala, Panama, and Honduras also showed rapid growth. Exports from El Salvador, on the other hand, declined slightly.

The Export-Import Bank helps to finance the export of U.S. goods and services to Central America. Because of the region's dearth of natural resources for the manufacture of finished products, export growth—particularly of nontraditional products—is inextricably linked to the ability to import. As part of its regular program, Eximbank currently insures short-term, bank-to-bank lines of credit totaling $45 million in three countries of the region and has a medium-term facility for El Salvador of $20 million.

The Trade Credit Insurance Program (TCIP) was established by Eximbank in collaboration with AID in 1984 to increase, through guarantees, the limited trade financing otherwise available through U.S. commercial banks. The program is a direct response to Commis-

Central America: Real GDP Growth, 1981-86 [1]



[1] Weighted average for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama.

Source: Agency for International Development

sion recommendations. AID has thus far guaranteed repayment to Eximbank of up to $300 million for commercial bank letters of credit. Despite a few brief delays, repayment experience has been good.

Utilization of the TCIP began slowly, but over the past year and a half the program has financed some $70-million worth of imports from the United States. El Salvador alone used half of this amount. We expect the other countries of the region to utilize increasing amounts over the next several years as more foreign exchange for imports becomes available.

Investment. For Central America as a whole, the ratio of private investment to GDP fell from 11.8% in 1980 to a low of 8.5% in 1983 and 1984 but recovered to 10.3% in 1985. Continuing security concerns had a dampening influence on investment, as did the need for restrained fiscal and monetary policies in light of large debt service requirements and inflationary pressures. Further, the economic reforms instituted in 1985 and 1986 by the Governments of El Salvador, Guatemala, and Panama have not been in place long enough to stimulate export production.

The most promising trend in private investment occurred in Costa Rica, where private investment fell from 17% of GDP in 1980 to 11% in 1982, but by 1984 recovered its 1980 level. This turnaround can be attributed in large part to significant economic policy reforms undertaken by the Costa Rican Government. In Panama, in contrast, private investment fell from an average of 18% of GDP during 1980–82 to an average of 13% during 1983–85. This reflected the completion of the large transisthmian oil pipeline project as well as Panama's inability, until recently, to implement coherent economic reforms. Significant declines in private investment also occurred in Belize, Guatemala, and Honduras; but the latter two began to experience a recovery in 1985. In El Salvador, the big drop in private investment already had occurred by 1980. The ratio remained around 6% during 1980–83, then rose to 7.7% in 1984 and to 8.2% in 1985.

The Caribbean Basin Initiative

January 1, 1984, marked the beginning of a development program unique in the history of American diplomacy. Never before had the United States granted preferential economic treatment to a geographically defined group of foreign countries. The preference is in the form of one-way free trade for 12 years to enable the countries of the Caribbean Basin to work and earn their own way to development through trade. As of mid-1986, 16 Caribbean and 6 Central American countries were participating fully in CBI programs.

After only 2 years of a 12-year program, it is too early to draw final conclusions. So far, overall trade has been disappointing because of continued low prices for most traditional commodities. But new lines of products have grown, in some cases dramatically: 92 new business activities have been identified in Central America; 74 of these have led to the creation of 17,212 jobs.

Thus, the fundamental purpose of the CBI—broadening and diversifying the production and export base of the countries of Central America and the Caribbean—is being at least partly met despite the political and military uncertainties that continue to plague the region.

The Overseas Private Investment Corporation is a strong supporter of U.S. investment in Central America. In FY 1985 OPIC insured over $4.5 million of investment in 11 projects in five countries of the region. In addition, OPIC provided another $4.5 million in financing for seven projects in FY 1985 in Central America, 30% of all projects financed by OPIC. As of mid-1986, OPIC has approved or is considering five new projects requiring loans in excess of $23 million. OPIC also has attempted to encourage investment in Central America through investment missions and feasibility studies. It conducted investment missions to Costa Rica in 1984 and to Belize in 1986, and in FY 1985 OPIC approved funding for nine feasibility studies in the region. To stimulate investment in Central America, OPIC also operates a project opportunities data bank and an Investor Information Services Program.

> ***"It is exceedingly vital for our partners in democracy to be willing to help us to increase the productivity and marketing of our resources."***
>
> **Manuel Esquivel, Prime Minister of Belize, March 1986**

The CBI's duty-free treatment of exports to the United States from the Caribbean Basin is designed to promote investment as well as trade. In early 1986 a Caribbean Basin Business Promotion Council was established to involve U.S. business leaders in the effort to attract new business interests to Central America and the Caribbean. Cooperation between government and the private sector is beginning to pay off in new investments—regional, foreign, and joint venture—in Central America.

Belize. Relatively stable political and economic conditions have attracted investor interest. Coca-Cola Foods (Minute Maid) purchased 50,000 acres of land for the establishment of citrus groves and a citrus processing plant and has $6 million invested to date. A shrimp breeding and commercial farming venture has been established with $35 million invested to date. Hershey Foods established the Cocoa Research Center for production and processing, with $4 million invested to date. A new hotel and water resort development with an initial investment of $3.5 million is planned for Water Caye, a small island south of Belize City.

AID helped establish the Belize Export and Investment Promotion Unit which facilitated export-oriented investments in shrimp farming, winter vegetable production, timber products, meat products, and the Hershey cocoa project. AID also contributed to a commercial bank discount loan fund which provides financing to the private sector for agricultural, industrial, and tourism projects to generate foreign exchange.

Fifteen Peace Corps volunteers are working in a new program as "small business advisers" to provide managerial and marketing assistance to small businesses and entrepreneurs.

Costa Rica. To boost exports and foreign investment, the Government of Costa Rica has devalued its currency, reformed the credit system, passed a new export incentives law, improved banking and currency law, undertaken port improvements, and reduced some port charges.

The Costa Rican Government also has established a sub-Ministry of Exports and Investments to facilitate export-oriented investments, a National Investment Council to approve tax and import benefits for export industries, overseas investment, promotion offices, and four duty-free export-processing zones. AID has provided technical or financial assistance to all of these efforts.

Since 1983, 90 foreign garment companies, representing 70% of the total clothing industry in Costa Rica, have either established operations or entered into subcontracting agreements. This sector's export sales totaled $29 million in 1984 and $45.7 million in 1985, mostly to the United States. During 1985 alone, this industry generated 2,428 new jobs. Exports of nontraditional products to markets outside Central America rose by 10.6% in 1985.

Development banking projects supported by AID have resulted in new investments of over $50 million and approximately 3,500 projected new jobs. The Special Credit Line and Small Industries Fund, established through direct U.S. assistance, has supported 180 companies by channeling approximately $97 million to the private sector. In the second half of 1985, the Coalition for Development Initiatives (CINDE) attracted four companies to Costa Rica, generating approximately 2,050 new jobs. With AID assistance, the new export-processing zones have resulted in nine new companies investing an estimated $2.1 million and generating some 400 new jobs.

The Peace Corps has started two projects in small enterprise development. Ten volunteers work in the tourist industry and seven provide managerial and technical assistance to small businesses and entrepreneurs. In coordination with the Ministry of Education, the Peace Corps has 10 volunteers working in an innovative pilot program in vocational schools to develop income-generating student cooperatives. The program is a Costa Rican version of the U.S. "Junior Achievement Program."

El Salvador. In January 1986, President Duarte introduced a comprehensive program to stabilize and rejuvenate the economy, which until then was seriously constrained by differences between the government and the business community, as well as by the insurgency and the regional depression. Key provisions of the government's new program were unification of the exchange rate and measures to reduce the fiscal deficit and fight inflation. An export incentives law also was adopted.

"We never lost confidence in the ability of our people to overcome hardship and stand together and work toward a brighter future. . . . We have come a long way in a short time."

Jose Napoleon Duarte, President of El Salvador, March 1986

To stimulate investment, the Government of El Salvador has allocated much U.S. assistance to private sector credit and has established special credit lines to finance nontraditional exports and small businesses. A new insurance program to cover war damage to productive private sector assets also should improve the investment climate. AID has provided foreign exchange needed by private farms, businesses, and factories to maintain production and employment.

The cornerstone of AID's private sector development program is the Salvadoran Foundation for Economic and Social Development (FUSADES), a nonprofit private organization. FUSADES promotes private investment in nontraditional exports and helps Salvadoran companies secure export markets. It also assists firms to diversify agricultural production for export and provides technical assistance, training, and credit to small-scale businesses. In its first full year of operation, FUSADES' investment promotion encouraged investment that resulted in $7 million of new, nontraditional exports and 2,900 new jobs.

Guatemala. The large relative size of the Guatemalan economy means that its successful recovery would have a positive impact throughout Central America. During most of 1985, however, private investment was hampered by foreign exchange shortages, a confused foreign exchange market, and the unsettled political climate that existed before the presidential elections. In March 1986, the new Guatemalan Government announced a comprehensive stabilization program. The program removes most hidden subsidies and price controls and raises interest rates to encourage savings and hold down excess credit that has fueled inflation in the past. Steps to encourage nontraditional exports also are included.

Because of legislative restrictions and the failure of the Government of Guatemala to enact necessary economic reforms earlier, the United States did not provide balance-of-payments assistance to Guatemala in FY 1984 or 1985. The Governments of Guatemala and the United States recently signed a $47 million economic support fund program that will finance essential, productive imports and support the economic stabilization program by relieving foreign exchange shortages.

AID's $12.5 million Agribusiness Development project, begun in 1985, provides credit and technical assistance to agribusinesses which, among other services, provide small farmers profitable outlets for their vegetables and fruit. The project also supports an effort by the Guatemalan Guild of Non-Traditional Exporters to establish a center for computerized export marketing information.

This same project also is assisting small farmer cooperatives to learn export management and marketing skills through the National Cooperative Business Association, a U.S.-based voluntary organization. As of 1986, four vegetable and fruit cooperatives and three vegetable freezing plants had begun to expand.

Honduras. Investment has declined in recent years due to the regional security situation, uncertainty in the business community caused by international pressure for devaluation, and delays in implementing measures to stimulate export production and economic growth. In the spring of 1986, the Government of Honduras increased export incentives and simplified procedures for investment and export registration to encourage new investment, especially in the export sector.

A substantial portion of the AID program in Honduras provides credit to the private sector for working capital and investment needs. With AID backing, the Honduran Federation of Agricultural Exporters and Producers is providing technical advice, training, and credit to more than 20 agroassociations that grow nontraditional commodities such as pineapples, melons, plantains, and cucumbers. The Foundation for Research and Entrepreneur Development (FIDE) is promoting increased production and export of agroindustrial goods and light manufactures. With FIDE support, seven apparel manufacturers have contracted export sales for the next year which involve over $6 million in value added and will provide 800 new jobs.

Agroindustrial and wood product companies have contracted $4 million in additional export sales, creating 500 new jobs. Assuming a more favorable policy climate, the real payoff of these institutional services and credit lines is expected in 1986 and thereafter.

Panama. During 1985, political uncertainties, liquidity problems, and the inability of the Government of Panama to enact needed economic reforms discouraged private investment and eroded investor confidence. More recently, however, Panama has enacted structural reforms that reduce tariffs and import quotas, allow free market pricing and reduce government price supports in agriculture, and revise the labor code to permit piecework.

The Chapeton brothers, former tenant farmers, bought land under provisions of El Salvador's land-to-the-tiller program.

AID has helped finance the National Investment Council of Panama (PIC), established to promote new export-oriented foreign and domestic investment. The council emphasizes the U.S. market and the opportunities presented by the Caribbean Basin Initiative (CBI). PIC had startup problems but has assisted over 30 new businesses with investments totaling more than $32 million, creating nearly 4,000 jobs in the last 2 years.

Agriculture

Between 1980 and 1984, Central American agriculture was virtually stagnant, with an average growth rate of only 0.1%. Though individual rates varied from −3.0% to +2.6%, estimates for 1985 show little overall change.

Traditional exports dominate agriculture. Yet world market trends have been unfavorable in the 1980s and are likely to remain so for the rest of the decade. Throughout Central America, AID-supported crop diversification efforts have begun to produce results. Exports of nontraditional fruits and vegetables to the U.S. and European markets, for example, have increased significantly as a proportion of total exports. AID projects also are helping to increase the production of basic grains and other crops for domestic consumption.

Belize. Agricultural output in 1985 was unchanged from 1984. Sugar production and earnings were down, reflecting a depressed world market price. Banana and citrus sales both increased.

The Government of Belize is encouraging producers to move from sugar cane into higher value export crops. AID is providing direct project assistance to help build feeder roads, to make cattle production more competitive in the world market, and to replace sugar production with vegetable crops for the U.S. winter market. Four Peace Corps volunteers are assisting a project sponsored by the Hershey Corporation, the Pan American Development Foundation, AID, and Volunteers in Technical Assistance to resume commercial cacao production for export. The Peace Corps and AID have established the Belize Junior School of Agriculture, which is geared to rural youth (14–18 years of age). The school provides practical "agriculture-as-business" training and is located in one of the areas hardest hit by the loss of income from sugar exports.

Recent large, long-term private sector investments backed by U.S. multinationals should begin adding to foreign exchange earnings in 1988–89. These investments should vastly increase citrus crop acreage and stimulate cacao production.

Costa Rica. Agricultural output fell by 3% in 1985 because of a 15% decline in banana exports due to poor weather and a banana workers' strike. Coffee sales showed new growth in 1985 and surged in 1986 because of buoyant world market prices. All other crops registered a 3% average increase in 1985, and nontraditional agricultural exports rose by 5.9%.

The Government of Costa Rica encourages agricultural exports by maintaining a competitive exchange rate, providing tax-free status for up to 12 years for new nontraditional export operations, and considerably reducing the red tape required of investors and exporters. The United States is supporting joint venture export operations through an organization of local entrepreneurs, financing renovation of small-scale coffee plantations to fight coffee rust, assisting in the creation of a major tropical lowlands agricultural school, financing improvements of rural access roads, and helping land titling and settlement efforts. AID projects and Peace Corps volunteers also are helping small farmers to improve and diversify their own food production by teaching methods of intensive gardening and freshwater fishery management.

> ***"Without the constant and broad support of the United States of America, we, the free men and women of Central America, would be greatly disappointed, and our development would be seriously limited."***
>
> **Jose Azcona,**
> **President of Honduras,**
> **March 1986**

El Salvador. Total agricultural output in El Salvador declined in 1985, although food crop production increased significantly. To stimulate production, the government boosted coffee prices and refinanced loans to coffee growers at more favorable terms. With financial and technical assistance from AID, the government also organized a major agricultural diversification program.

Progress in land reform will require resolute government action on several problems, including completion of titling and compensation, settling the agrarian debt, better definition of the rights of beneficiaries, and improved farm management. Production on small individual plots has been increasing, but the larger and more productive cooperatives continue to operate below prereform production levels. Projects are being developed in new products like pond-grown shrimp, cut flowers, and decorative plants.

Guatemala. Agricultural output in Guatemala declined slightly in 1985, as flawed economic policies and stagnant international prices discouraged export production. A bright spot was the 29% increase in exports of nontraditional fruits and vegetables. Grain production for domestic markets (corn, wheat, rice, sorghum, and beans) maintained relatively high 1984 levels.

Prospects for 1986 are much brighter. The new government's implementation of a much-needed economic stabilization program should increase investor confidence, and the movement of all trade to a parallel market exchange rate will increase incentives for export producers. The increase in world coffee prices will provide a major boost.

AID is supporting efforts to diversify production, particularly in the economically depressed highlands, by financing assistance to producer cooperatives to improve management, handling, grading, and shipping of fresh produce; research and extension services for nontraditional crops; small-scale irrigation and soil conservation efforts; and construction of processing facilities such as freezing plants.

Honduras. Honduras achieved a 2.6% increase in the value of agricultural production in 1985, primarily because of a 24% increase in banana exports. Production of most other crops changed little from 1984, although exports to Europe of nontraditional products such as

The Fondo Ganadero

The cattleman's fund (Fondo Ganadero) is the fruit of cooperation between the Honduran Ministry of National Resources, the National Agrarian Institute, *campesino* organizations, individual *campesinos*, cattlemen, and representatives of the dairy and meat packing industries. Its formation was facilitated by a grant from AID in 1985.

The Fondo defrays the often prohibitive cost of establishing a commercially viable herd of cattle by providing Fondo-owned cattle to farmers and *campesinos* who manage the herds and split the profits with the Fondo.

Campesinos can use their share of the profits to buy the cattle. This approach is an innovative method of fostering development in the agricultural sector by encouraging private enterprise.

citrus fruits, melons, and cucumbers increased appreciably. Exports are constrained by high transportation costs and inadequate market information.

The Government of Honduras has provided special export incentives, reducing export taxes to the banana industry, waiving most taxes on imports needed to support production, and simplifying procedures to register investments and to obtain export permits. It has also legalized use of rural land titles as security for loans, decreased government control over lumber exports, and continued a wide variety of programs to increase the production of basic grains.

Peace Corps volunteers are helping small farmers increase production for local markets. AID has assisted more than 6,000 small coffee growers to raise coffee production by 11,000 tons and to increase income by $29 million in 1985–86. An AID-financed program has increased the national livestock herd by 10,000 head and has established 172 new small livestock operations with increased income of $1.5 million in 1985 and 1986. The National Resources Management project has doubled average corn yields on over 4,000 hectares of fragile hillsides in drought-prone southern Honduras. AID also supports a private, nonprofit research foundation which works with both nontraditional and traditional export crops, particularly cacao, plantains, tropical fruits, winter vegetables, and bananas. This organization has volunteers assigned to provide technical assistance in production and marketing.

Panama. The agricultural sector grew by an estimated 2.0% in 1985. Exports of bananas and shrimp rose, and livestock production increased by 3%–5%. Sustained rapid agricultural growth will require significant reforms, particularly in price and marketing policies.

AID is helping the Government of Panama to design programs to reduce reliance on price supports, divest the government of its sugar production and rice marketing operations, and promote exports. AID is providing credit and technical assistance to cooperatives seeking to expand exports of nontraditional crops, such as melons and cantaloupes, to the United States. AID also is supporting research in watershed management for small farm operators.

Energy

The Central America Energy Resources project of AID, which is being implemented by Los Alamos National Laboratories, has developed feasibility studies for geothermal development, completed a peat end-use analysis, and helped local government energy offices to improve their overall planning and management capabilities. Another regional project, the Tropical Agricultural Research and Training Center, is developing improved techniques of fuelwood management. The Central American Industrial Research Institute helps business and industry save energy. The National Rural Electric Cooperative Association recently completed a detailed study on rural electrification in the region.

AID also provided a large diesel generator to Guatemala to cover a temporary shortfall in electrical production due to startup problems with the new Chixoy hydroelectric dam. In Panama, AID-financed watershed and forestry management programs have focused on the problems of premature silting of hydroelectric dams and fuelwood shortages. AID also financed a coal development study in Costa Rica to identify economically viable deposits.

The future of forest lands is threatened by slash-and-burn agriculture, use of hardwoods as fuel, and by cultivation of steep lands. In Guatemala and Honduras, Peace Corps volunteers are helping to train farmers in soil and water conservation, and in planting fast growing fuelwood species.

The Honduran Coffee Institute and AID enable small coffee growers to compete more effectively by buying new, improved coffee seedlings.

Other Donors

The trend toward democracy in Central America over the past 2 years has encouraged other donors to increase their assistance.

The European Community (EC) and various individual European states are sending modest but growing amounts of

economic assistance, especially foodstuffs and agricultural equipment. Much of the assistance is channeled through regional institutions, such as the Central American Bank for Economic Integration. In 1985, the Community decided to double its assistance to the region over the following 5 years.

Japan and Israel also contribute financial and technical assistance. Mexico and Venezuela sell oil to particular Central American (and Caribbean) countries on generous credit terms, while Argentina and Brazil provide credits to finance their bilateral trade.

The World Bank and the Inter-American Development Bank finance important infrastructure and other projects on long-term concessional terms. In 1985 alone, these two institutions approved Central American loans totaling approximately $520 million. Projects are distributed over a wide range of activities, including energy, agriculture and fisheries, transportation and communications, industry, urban development, export financing, environment and public health, and education.

Prospects

Assuming continued U.S. and other external assistance, the significant economic adjustment measures undertaken by Central America's democratic governments, coupled with higher coffee prices and lower oil costs, should produce higher growth rates over the next several years. Growth probably will not surpass population increases, however, unless private investment also increases significantly. To a great extent this will depend on the security environment as well as the policies of the region's governments.

V. Spreading the Opportunities

"Widespread hunger and malnutrition, illiteracy, poor educational and training opportunities, poor health conditions, and inadequate housing are unstable foundations on which to encourage the growth of viable democratic institutions."

The Commission Report, Chapter 5

Jobs

Where life opportunities are poorly distributed, individual citizens are prevented from contributing to their society to the full extent of their potential. The Commission saw what it called "human development" as key to strengthening production as well as distribution, growth, and welfare.

Strengthening democratic labor unions; encouraging economic policies that attract investment and lead to diversified production; creating more consumers in domestic and regional markets; and improving public works, health, and education—all are different but complementary ways to attack the massive unemployment and underemployment characteristic of underdevelopment. High unemployment today in Central America is a major source of civic unrest, crime, and emigration.

Creating jobs is thus a major objective of the measures to induce economic growth summarized in the previous section. Creating jobs must also be a central concern of a sound strategy to foster human development. The availability of jobs increases individual opportunities and enhances the sense of dignity that accompanies the ability to take advantage of them. The greater the number of jobs, the greater the number of individuals able to contribute to society. At the same time, the greater the number of healthy, educated individuals, the greater their ability to make the most of existing job opportunities or even to create new ones. The more people are gainfully employed, the stronger is the base for democracy.

Education

In response to the Commission's recommendations to improve substantially the quality and increase the availability of educational opportunities, AID has programmed approximately $250 million in U.S. dollars and local currencies for educational activities. Some of the results include:

Physical Facilities. In Honduras 2,100 classrooms have been built, and plans are being developed for school construction and renovation in Belize and Costa Rica.

Teacher Training. In Honduras 8,000 teachers and school administrators have been trained. In Guatemala approximately 1,000 bilingual education trainers have learned to use a new bilingual Spanish-Mayan curriculum, and plans are underway to train another 2,500 teachers. In-service teacher training programs are being planned for El Salvador, Belize, and Costa Rica.

Basic Educational Materials. In Costa Rica, American aid is helping fund a private sector initiative to produce and distribute 2 million primary school textbooks. In Guatemala, AID is supporting a Ministry of Education project which has developed textbook materials in four Mayan languages. In El Salvador, the first phase of a project to produce 3 million textbooks and teacher's guides is underway.

Vocational Education. Programs in Costa Rica have provided in-service training to approximately 2,000 people producing nontraditional exports, and in Honduras in-plant training has been tested and plans for expanding the program are being developed.

Higher Education. A regional project has been approved to create a private Inter-American Agricultural college in Costa Rica.

Scholarships. The Commission recommended government-sponsored scholarships for 10,000 Central Americans. This recommendation is being implemented through a mix of USIA and AID programs. The AID-funded $146 million Central American Peace

Scholarship program (CAPS) will bring 7,000 Central Americans to the United States.

CAPS brings to the United States Central Americans from nonelite backgrounds who otherwise would not have a reasonable opportunity to study here. Most are either current or potential leaders within their sector or directly influence the preparation of future leaders. Rural youth leaders from Panama have participated in training programs in the United States, living with American farm families. Leaders from Costa Rican Indian groups, local YMCAs, rural co-ops, and university student associations have met with similar American groups and some also have lived with American families. Guatemalan rural health workers and local co-op leaders have participated with rural co-ops and local health programs in the United States. As additional groups are organized, increased efforts will be made to provide more in depth and meaningful exposure to and contact with Americans.

Under the CAPS project, 3,400 long- and short-term scholars from Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama will have been trained or will be in training in the United States before the end of the 1986.

"We need not only understanding and help from national sectors, but also technical assistance and credit from sister nations, friendly countries, and entities willing to contribute to the strengthening of our democracy."

Vinicio Cerezo,
President of Guatemala,
March 1986

Expanded USIA scholarship programs include International Visitors, Fulbright, and university grant programs as well as a new pilot program for undergraduates (CAMPUS, or Central American Program for Undergraduate Scholarships); 573 academic exchanges, including CAMPUS, International Visitors, and Voluntary Visitors, are projected for FY 1986. The continuation of the CAMPUS program, however, is dependent upon congressional approval.

In mid-1985 USIA began a new Central American Book Initiative to provide Spanish-language books, largely from American book subsidiaries in Mexico City, to university libraries and faculties as well as to government leaders and institutions in Central America. Over 50,000 books, many of them U.S. textbooks in translation, have been presented to key institutions and individuals. Important titles, from Paul Samuelson's classic economics text to Shirley Christian's *Nicaragua, Revolution in the Family*, have received promotional support. In addition, special collections have been presented to leading newspapers and institutions, including military academies.

USIA has established a regional English Teaching Office in Panama to work with ministry officials, educators, and United States Information Service (USIS) posts and binational centers to develop and improve English-language competency throughout Central America. USIA also has organized training workshops for Central American librarians, teachers of English, and binational center administrators.

The Peace Corps has increased its strength by nearly 400 volunteers in

Displaced Salvadorans at work building a road in one of the many projects that are providing jobs and spurring development in El Salvador.

Central America. Of these, approximately 300 are involved in formal and nonformal education activities, many as teacher trainers and program advisers. In Honduras, for example, 52 volunteers work as adult education promoters in the national literacy program and as preschool, primary, and special education teacher trainers. In Costa Rica, 35 volunteers serve as adult education advisers, English teacher trainers, and elementary and special education advisers. In Belize, nearly 40 volunteers teach in the primary and secondary school systems.

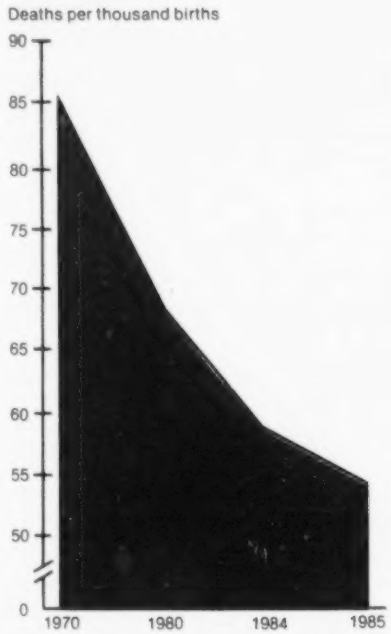
Health

UNICEF, Project HOPE, AID, and the governments of Central American countries are facilitating the distribution of pharmaceuticals, the conduct of national vaccination campaigns, and the construction of dispensaries in many Central American countries.

Oral Rehydration Therapy. Diarrhea is a major killer of infants and children in Central America; the answer is Oral Rehydration Therapy (ORT). In 1985, El Salvador's Ministry of Health distributed 1.67 million donated oral rehydration packets. The packets (containing a simple solution of salt, sugar, and water which can be prepared by parents in their own homes) are used to protect about 50% of the 861,000 children under the age of 5 from diarrhea, the leading cause of death in this age group. The Salvadoran private sector manufactured an additional 1,341,000 packets, as well as 300,000 bottles of oral rehydration fluids in 1985. An AID-supported health project in Honduras to combat diarrhea-related diseases through the use of this therapy is among the most successful in the world. Working closely with the Honduran Ministry of Health, the project has helped deliver some 3 million packets of oral rehydration salts. This effort was boosted by an extensive education campaign through print media and radio. Aimed at parents, the campaign provided information on the causes and effects of diarrhea as well as on the means to reduce accompanying dehydration. In one study area, the mortality rate for children under five due to diarrhea-related diseases dropped by 40% after the introduction of the ORT Program. Peace Corps volunteers provide followup assistance to the families.

The Nutrition Institute for Central America and Panama, with $8 million in support from AID and the cooperation of the Pan American Health Organization and UNICEF, has launched a regionwide effort to increase the use of this therapy and related feeding practices.

Central America: Infant Mortality [1]



[1] Data for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama.

Sources: 1970 - Office of Health Statistics, Pan American Health Organization (as reported by member governments); World Population Data Sheet (appropriate issues), Population Reference Bureau, Inc., Washington, D.C.

Immunizations protect children and adults from disease such as diphtheria, pertussis (whooping cough), tetanus, polio, measles, and tuberculosis. Immunization coverage reaches more than 70% in Costa Rica and Panama but is generally at or below 50% for the other countries of the region. AID is working to make vaccinations more available to children and pregnant women and hopes to institutionalize these programs so that they will continue to be available to children of future generations.

In Honduras, over 1 million children benefited from an AID-supported immunization program which provided 50% coverage of measles and DPT (diphtheria, pertussus, and tetanus) and 84% coverage of polio.

In El Salvador, a national vaccination campaign was carried out during the spring of 1985. Over 1.6 million doses of vaccine to protect against measles, diphtheria, pertussis, tetanus, and polio were administered to children under age five. Pregnant women received toxoids to prevent tetanus in newborns. Estimates reveal the immunization program saved the lives of some 35,000 children. Working closely with the Government of El Salvador and UNICEF, AID provided funds for pharmaceuticals, refrigerated storage equipment, and promotional materials. As a result of the government's "Bridge for Peace" policy, both guerrilla and government troops observed cease-fires on the 3 national vaccination days. In the 1986 campaign, some 400,000 children and pregnant women were vaccinated on the first of 3 campaign Sundays.

In Guatemala, a new AID-funded project assists the Ministry of Health to improve its vaccination program. This includes making immunizations available routinely in all health facilities. It also means visiting each household in rural Guatemala three times a year to identify children needing vaccinations. The project will assist the ministry by funding training for health workers, promoting vaccinations, and improving the refrigerated transport system for the vaccines.

Primary Health Care Training. Although Central American nations are committed to providing better health care, insufficient funds, lack of trained staff, and inadequate management systems often impede access to services.

In Honduras, AID is assisting in providing in-service training to help develop the human resource base. All Ministry of Health auxiliary nurses have been trained in family planning and oral rehydration technologies. The Honduran Ministry of Health also has undertaken a number of reforms in the health financing area to keep basic drugs available at a reasonable cost. In addition, part of each hospitals' recurrent costs is to be covered by service fees beginning at 5% and gradually increasing to 30% by 1989.

El Salvador's Ministry of Health is increasing existing levels of primary health care and emergency medical services. AID support of $35 million over a 3-year period is assisting the ministry to meet critical short-term needs for essential goods and services and improve existing systems for health supply management, maintenance, and information.

Costa Rica is improving the management of its Social Security health care system with technical assistance provided by the Pan American Health Organization and funded by AID.

Voluntary Family Planning. Central American governments see population planning and development as mutually reinforcing. U.S. assistance promotes voluntary family planning and is channeled through the private sector. AID supports commercial contraceptive sales programs in Costa Rica, El Salvador, Guatemala, and Honduras that increase accessibility and affordability of contraceptives, provide greater choice to the consumer, allow partial cost recovery, and reduce the burden on governments by turning contraceptive distribution over to the commercial sector. A similar program is being planned in Panama.

Nutrition efforts seek to overcome serious protein deficiencies resulting from diets based on corn, rice, and beans. The PL 480 Title II (Food for Peace) program expects to provide food assistance in 1986 valued at $38.1 million for maternal and child health, food for work, school feeding, emergency feeding, and aid to displaced persons. The Institute of Nutrition for Central America and Panama uses a $5.6 million AID grant to improve the effectiveness of food assistance activities in Central America. Peace Corps activities also increased during 1985 and 1986. Volunteers help local health professionals to improve their skills and join them in providing services to the rural population.

Providing Clean Water

Potable water is essential to a community's economic progress and to the health of its members. Less than 24% of Guatemala's rural communities have access to potable water.

Children, in particular, suffer from the unavailability of clean water—those under 5 years of age account for 50% of all deaths in Guatemala. The infant mortality rate in rural areas is 150–200 per 1,000 live births, more than twice the national average. Water and sanitation-related diseases rank in the top three causes of illness and death in rural communities.

AID is helping the Government of Guatemala to install water and sanitation systems. Since the initiation of the project, more than 6,000 families have gained access to these basic services. This preventive health program continues to expand. And one of its key elements is to involve the communities receiving water in the construction and management of the new water supply system.

Agrarian Reform

Under a $1-million pilot commercial land market project in Guatemala, the Penny Foundation (Fundacion del Centavo) and AID provide long-term credit to help small farmers buy arable land.

The purpose is to encourage a more equitable distribution of cultivable land through the free market system. The foundation buys land on the open market and surveys it for agricultural potential. The land is then sold to the small farmer on concessionary terms.

The foundation has purchased seven farms and has sold the land to 300 farmers who produce a variety of crops. One 45-hectare farm in San Andres Semetabaj has been parceled to 25 families who produce brussels sprouts and broccoli for export; 25 families have purchased plots of land on farms in Tucuru, Alta Verapaz, and will plant cardamom and coffee.

Housing, Water, and Sewerage

Regionally, AID is financing 48 separate projects to improve housing, sewerage construction, and other infrastructure, such as roads, bridges, irrigation projects, and energy. Examples include construction of rural access roads and bridges and a housing guaranty program in Belize; housing guaranty and road construction programs in Costa Rica; housing guarantees and public works programs for streets, sewers, and irrigation in El Salvador; and housing , rural roads, and sanitation systems construction in Guatemala. AID also supports a regional housing guaranty program with the Central American Bank for Economic Integration and sponsors community activities to improve homes, streets, and water systems through private voluntary organizations.

In the four countries where the Peace Corps serves, volunteers help residents to dig wells, repair homes, and otherwise improve their immediate environment.

Land

Several countries have begun programs to broaden access to productive land by small commercial farmers and cooperatives. El Salvador's program is the most comprehensive in distributing productive land. In 5 years, more than 92,000 Salvadoran peasants and their families—25% of the rural poor—received about 22% of El Salvador's scarce agricultural land. A great deal remains to be done, however, before the reform becomes an economic and administrative success.

Smaller programs in Honduras and Guatemala are experimenting with new, market-oriented means of increasing access to land. In Costa Rica, title to government-owned land is being transferred to individuals willing to live and produce on plots with high productive potential but located in relatively remote areas.

VI. The Security Shield

Threats

When the Commission met, the principal regional security threat was Soviet and Cuban support for armed insurgencies. Externally supported guerrilla war was a reality in El Salvador, a controlled but costly conflict in Guatemala, a sporadic problem in Honduras, and a latent possibility in Costa Rica.

The Sandinista government had joined Cuba and the Soviet Union in supporting these insurgencies—providing materiel, logistics support, training, and safehaven to insurgent forces seeking to overthrow the governments of their neighbors. This pattern of intervention and the "internationalist" communist doctrine behind it are documented in Department of State Special Report No. 132, *"Revolution Beyond Our Borders": Sandinista Intervention in Central America*, September 1985.

A second security threat identified by the Commission was the Sandinista military buildup. Due in large part to the continuing flow of Soviet-bloc military equipment (including advanced helicopter gunships beginning in the fall of 1984 at a time when U.S. military assistance to the Nicaraguan resistance was banned by Congress), the Sandinistas have become Central America's predominant military force in manpower, equipment, and firepower. The Sandinistas' refusal to consider reductions in their 70,000-plus active duty force, even in the context of a comprehensive Contadora agreement, and their periodic attacks on Honduras and Costa Rica, makes the imbalance a major regional concern.

Combating this dual threat of insurgency backed by conventional forces places a great strain on the limited resources available to democratic countries of the region.

Responses

The Commission advocated a comprehensive regional approach. The United States contributes to what has become a collective response through military assistance programs, joint ground and naval exercises, and additional military support missions to improve the effectiveness of local military forces and to demonstrate the U.S. commitment to the region's democracies. The U.S. goal is to help the armed forces of each country to professionalize, to combat security threats in a manner consistent with recognized human rights standards, and to develop institutionally in a manner compatible with democratic government.

"The concerting of the power of the Soviet Union and Cuba to extend their presence and influence into vulnerable areas of the Western Hemisphere is a direct threat to U.S. security interests."

The Commission Report, Chapter 6

The Denton Amendment

Civic groups in the United States that collect articles for donation to Central American humanitarian relief efforts can now contact local National Guard offices to have their supplies transported—on a space-available basis—on military flights.

More than 10 tons of refugee relief supplies were provided to Honduras in separate deliveries in late 1984 and April 1985 by organizations like the Friends of the Americas, the Riverside Baptist Church, and Americans for International Aid.

This people-to-people cooperation is made possible the Denton amendement, enacted in 1984 and named for Alabama Senator Jeremiah A. Denton, Jr., who guided the measure through Congress. This legislation facilitates the involvement of individuals and the private sector in relief efforts by authorizing the Department of Defense (with the approval of the Department of State and AID) to transport donated humanitarian items such as clothing and medicines.

El Salvador. U.S. assistance has helped the Salvadoran Armed Forces develop; more importantly, it has helped improve their performance on the battlefield. Salvadoran soldiers are better trained, better equipped, and more mobile than they were in 1984. At the same time, their operations are now subject to rules of engagement designed to safeguard human rights.

Increased Salvadoran military effectiveness has weakened the guerrillas and forced them to change tactics. To avoid engagements with the Salvadoran military, the guerrillas are primarily operating in small units to avoid detection and have concentrated their attacks on economic targets. Since mid-1985, the guerrillas have used mines indiscriminately, causing numerous civilian casualties.

Improved battlefield and human rights performance has been accompanied politically by the Salvadoran military's defense of constitutional order and free elections. El Salvador's military, once considered a defender of the status quo and an impediment to democracy, today defends the future rather than the past. Training and organizational improvements are largely responsible for the changes. Merit promotion has been implemented. Officers associated with human rights abuses have been removed, and a unit associated with human rights abuses has been disbanded.

Though badly weakened, the guerrillas are not defeated. Their current strength is estimated at 4,500–6,000 combatants. They are still able to conduct operations such as the attacks on the La Union National Basic Training Center in October 1985 and the June

"Our security aid to Central America should be given and discussed in one way: it is a shield behind which endangered nations can protect themselves from external threats while they go about the business of building democratic institutions, holding free and fair elections, and working to rectify historical patterns of social injustice."

Senator Henry M. Jackson, April 29, 1983

1986 attack on the Third Brigade Headquarters in San Miguel. But such operations have become increasingly difficult, less frequent, and more costly for them.

Guatemala. After a coup on March 23, 1982, new military leaders implemented a democratization and development strategy that promoted improvements in the Indian highlands, emphasized a code of military conduct to improve relations between the military and civilians, and enlisted the help of the rural population to defend their own villages by creating civilian defense patrols. This strategy ended policies that had isolated Guatemala internationally and brought virtual civil war at home. General elections in November and December 1985 led to the inauguration of a civilian president in January 1986.

The guerrilla threat in Guatemala is now mainly restricted to mountainous rural areas, parts of El Peten (including some oil-producing and exploration sites), and small, isolated strips bordering Mexico. The threat posed by the roughly 1,500–2,000 armed guerrillas is being met by a military that has proven itself operationally proficient but is increasingly and severely handicapped by shortages of resources and equipment. For example, lack of helicopter spares hinders operations—especially resupply and medical evacuation—in the mountainous terrain used by the guerrillas.

Guatemala has been eligible to receive some training under the international military education and training fund (IMET) since FY 1985; because of human rights concerns, however, no other U.S. Government military assistance has been extended to Guatemala since 1977. In June 1986, as a first step to providing nonlethal military assistance, the Administration forwarded to Congress a certification on human rights and political conditions in Guatemala following a written request for the assistance from the President of Guatemala.

Honduras. In 1981, Honduras suffered a wave of terrorist attacks. In 1983 and 1984 guerrilla units trained in Nicaragua and Cuba entered Honduras from Nicaragua. Neither the terrorists nor the guerrillas had popular support; they were quickly detected and defeated.

While demonstrating an ability to effectively deal with small insurgent groups, Honduras has neither the capacity nor the desire to keep pace with the military buildup in Nicaragua. Faced with a large-scale attack by the Sandinistas into Honduran territory, Honduras would rely on assistance from the countries belonging to the Rio Treaty.

U.S. military cooperation with Honduras is designed to help the Honduran Armed Forces develop an effective deterrent to externally supported terrorism and insurgency and to enable the Hondurans to contain a conventional cross-border attack from Nicaragua long enough for a Rio Treaty response.

U.S. military assistance has thus sought to help the Hondurans make the most efficient use of their armed forces, whose modest size (18,000 active duty military personnel) and equipment are commensurate with the limited economic resources of the country. Combined U.S.-Honduran military exercises demonstrate U.S. commitment to the security of the region and provide training opportunities that enhance their deterrent effect by improving the combat readiness of participating units.

Costa Rica. Costa Rica has no professional standing army and depends on the Rio Treaty for its defense. The lightly armed 8,000 member Public Security Force (Civil and Rural Guard) represents Costa Rica's only capability to defend itself.

Fully respecting Costa Rica's laws and traditions, U.S. security assistance enhances Costa Rica's ability to maintain a presence along its borders and to train and equip a rapid reaction Civil Guard force of less than 1,000 men.

"When the Alliance for Progress was first launched, the entire hemisphere seemed to discover that there could be no long-term security without economic development. Today, we are learning a new lesson: in addition to the nexus between security and development, there is a second nexus, this one between security and democracy."

Elliott Abrams, Assistant Secretary of State for Inter-American Affairs, June 13, 1986

Nicaragua. The Sandinista military buildup makes possible both internal repression (of the church, the press, and political life in general) and external pressure against Nicaragua's neighbors (the maintenance of guerrilla and terrorist safehavens).

The operations of Nicaraguan democratic resistance forces have impeded the consolidation of Sandinista totalitarianism and diverted resources that otherwise would be available to the Sandinistas to support guerrilla insurgencies elsewhere in Latin America.

At least until the June 25, 1986, vote in the House of Representatives which approved $100 million in military and economic assistance to the Nicaraguan resistance and an additional $300 million in economic assistance to the Central American democracies, U.S. uncertainty and contradictory actions raised questions in the region about U.S. reliability as an ally against Nicaraguan aggression.

VII. Diplomacy

U.S. diplomacy has consistently pursued the Commission's recommendations that U.S. policy should test "Nicaragua's willingness to enter into a general agreement" and support a just and lasting solution to the Central American crisis.

Since 1983, the United States has supported regional negotiations through the President's Special Envoy for Central America. Three distinguished Americans have served as Special Envoy: Senator Richard Stone and Ambassadors Harry W. Shlaudeman and Philip Habib. Their intense activity has helped the United States maintain contact with the region's countries in the search for democracy and peace.

The Contadora Process

In early 1983, Colombia, Mexico, Panama, and Venezuela's initiatied the Contadora process to search for a negotiated settlement to the crisis in Central America. In September of that year, these four countries, known as the Contadora Group—and the five Central American states produced a Document of Objectives listing 21 points essential to a lasting peace. The Contadora process has worked since then to incorporate these points into a treaty. In 1985, in an effort to help revitalize stalled negotiations, Argentina, Brazil, Peru, and Uruguay formed the Contadora Support Group.

Contadora is an all-Latin American negotiation, and, therefore, the United States is not a participant. The United States, nontheless, has supported the Contadora process from the start. U.S. objectives are consistent with the 21 points of the 1983 Document of Objectives. Common objectives includes the end of military hostilities, reductions in foreign military advisers and equipment, the end of support for insurgencies, and dialogue between insurgents and the governments they oppose, leading to open, competitive democratic processes in which all citizens may participate. So long as it is fully implemented by all parties, the United States will support and respect a comprehensive, verifiable, and simultaneous implementation of a treaty fully embodying the Document of Objectives.

The key question is whether Nicaragua is willing to implement any agreement any based on all the Contadora objectives. To date, the Sandinistas' claim to be a revolutionary "vanguard" that must exercise national leadership has kept them from negotiating seriously to fulfill Contadora's goal of democratization. This claim to exclusive political power is fundamentally incompatible with the Contadora nations' vision of democracy, in which parties compete and transfer power peacefully to the winner of free elections.

During 1985, the Sandinistas repeatedly hampered efforts to conclude an agreement. They disrupted a Contadora meeting in June, causing a 4-month hiatus in the talks. In November, they went public with extensive, detailed objections to the September 1985 Contadora draft that was similar to the September 1984 draft they had said they would accept. In December 1985, Nicaragua requested a suspension in negotiations until the following May. It was alone at the OAS General Assembly when all other members voted in favor of continuing the negotiations.

The Caraballeda Declaration, issued by the Contadora foreign ministers in January 1986, provided impetus for renewed discussions. In February, however, Nicaragua again refused to address key areas of disagreement on the draft treaty. In an effort to narrow the gap, the 13 Contadora and Central American foreign ministers met in April in Panama. This time Nicaragua refused to negotiate on arms limits and maneuvers. Increasingly frustrated by Nicaragua's intransigence, the Contadora countries again called on the Central Americans to negotiate these matters and meet on June 6 to conclude an agreement.

During negotiations in May the Central American democracies offered formulas to reestablish a regional military balance. Nicaragua proposed to discuss limits only on certain types of arms, most of which were not in its inventory. In late May, all five Central American presidents met at Esquipulas, Guatemala, and declared their willingness to sign a Contadora treaty.

On June 7, 1986, the Contadora Group presented a revised draft to the Central Americans. On June 21, without actually offering to sign, Nicaragua announced it was responding positively to the June 7 draft. The Central American democracies, however, had previously noted that the draft has major deficiencies. Essentially, it leaves open key provisions—democratization, arms limits, and verification—and asks the Central Americans to "sign now and negotiate later."

With the presentation of the June draft, the Contadora Group seems to consider its work to have essentially concluded. Contadora Group spokesmen have expressed their willingness to continue their efforts, particularly on the statute on verification and control, but indicated that it is now up to the Central Americans themselves to reach agreement on the unresolved issues in the basic treaty.

Bilateral Conversations

Bilateral talks between the United States and Nicaragua took place in 1984 at the request of the President of Mexico, acting on behalf of the Contadora Group. Secretary Shultz visited Managua on June 1, 1984, to begin the process. Nine rounds of talks, eight of them in Manzanillo, Mexico, were then held between Special Envoy Harry W. Shlaudeman and Nicaraguan Vice Foreign Minister Victor Hugo Tinoco.

". . . the development of an open political system in Nicaragua, with a free press and an active opposition, would provide an important security guarantee for the other countries of the region and would be a key element in any negotiated settlement."

The Commission Report, Chapter 7

In January 1985, the United States decided not to schedule further bilateral talks due to concern that the Sandinistas were using them to avoid talks with their democratic opposition and to avoid comprehensive negotiations within Contadora's multilateral framework.

On February 10, 1986, Secretary of State Shultz met in Washington with the foreign ministers of the Contadora and Support Group countries. He told them that the United States was prepared to reopen bilateral discussions with Nicaragua if the Sandinistas talked to their democratic opposition, including the armed resistance. The United States, the Secretary added, also was prepared to respond in a positive manner to concrete improvements in Sandinista behavior in the four areas of major concern—support for insurgencies, Soviet/Cuban military ties, the military buildup, and lack of democratization.

Internal Reconciliation

Under the leadership of President Duarte, the Government of El Salvador has repeatedly sought direct dialogue with the Salvadoran guerrillas. The lack of a parallel development in Nicaragua, where the Sandinistas have refused every opportunity to engage the democratic resistance on political instead of military grounds, has been a major disappointment.

El Salvador. In a speech to the UN General Assembly on October 8, 1984, Salvadoran President Jose Napoleon Duarte proposed to meet military representatives of the Salvadoran guerrillas. Meetings between the Salvadoran Government and insurgents of the Farabundo Marti Liberation Front/Revolutionary Democratic Force (FMLN/FDR)—mediated by the Catholic Church—took place on October 15 in La Palma and on November 30 in Ayagualo but found no common ground. The government offered amnesty for all insurgents, including leaders, and full participation in the political process but would not agree to demands that the constitution be abrogated and that the government be restructured in an undemocratic manner.

At Ayagualo the guerrillas exploited the talks to spread propaganda both internally and abroad but showed no interest in accommodating the Salvadoran political system. As a result, the talks were broken off. In the 18 months that followed, the insurgents made numerous calls for resumption of dialogue for propaganda value. One such call was made while the guerrillas held President Duarte's daughter hostage, yet denied they had her.

While the guerrillas and the extreme left continue to seek a military victory through "prolonged warfare," President Duarte is offering the option of democratic politics to the nonviolent left. Trade unions are active. Several leftist "forums" have been held. A Social Democratic Party has been founded and has published a political platform and other manifestos in the press. Mid-level FDR politicians have quietly returned to El Salvador and begun political organizing.

On March 4, 1986, President Duarte offered to sit down with the armed opposition if the Sandinistas did the same. Had Duarte's offer been accepted by the Sandinistas, the United States would have reopened talks with Managua, but both the Sandinistas and the FMLN/FDR rejected the offer. Representatives of the insurgents and the government did meet in April 1986, in Lima, Peru, when Ruben Zamora and Hector Oqueli of the FDR met with Minister of Culture and Communications (and key Duarte confidant) Julio Adolfo Rey Prendes. Although the FDR representatives seemed willing to compromise on some issues, they could not speak for the FMLN.

"The United States will support any negotiated settlement or Contadora treaty that will bring real democracy to Nicaragua. What we will not support is a paper agreement that sells out the Nicaraguan people's right to be free."

President Reagan, June 24, 1986

On June 1, 1986, President Duarte again probed FMLN/FDR intentions to see if the extreme left could be incorporated into peaceful political life. While exact plans are not public, the talks will probably take place in El Salvador. Archbishop Rivera Damas, as before, will act as the intermediary. Duarte will lead the government delegation, while the FMLN/FDR will be represented by Commander Joaquin Villalobos of the People's Revolutionary Army (ERP), Commander Leonel Gonzalez of the Popular Liberation Forces (FPL), and FDR leaders Guillermo Ungo and Ruben Zamora.

Nicaragua. The willingness of the democratic resistance to stop fighting if allowed to participate in genuinely free and fair democratic elections has been on record, in writing, since December 1983. During the summer of 1984, the Democratic Coordinating Board (the *Coordinadora*) looked to the highly respected Arturo Cruz, a former member of the Sandinista government, to lead it in the November 1984 elections. The *Coordinadora* was composed of Nicaragua's leading civic groups (parties, unions, professional associations); Cruz was then working exclusively with the civic opposition. (It was only after this effort at a political solution failed that Cruz became a leader of the armed resistance.) Many hoped that the entry into the campaign of this respected former junta member would help redirect Nicaragua's political life toward democratization.

The *Coordinadora* sought to negotiate conditions under which fair elections could take place. But despite the friendly mediation of the Socialist International, talks with the Sandinistas collapsed. Some opposition parties ultimately agreed to participate in the elections. Most, including the *Coordinadora*, did not. With freedoms of speech, association and assembly among many rights severely curtailed, the Sandinistas received 67% of the votes. The Sandinistas had used all the tricks Somoza used in his own election in 1974, which the Catholic bishops at the time called "legal war."

In February 1985, the *Coordinadora* proposed a national dialogue with all parties involved in Nicaragua's deepening political crisis—including the armed resistance—to be mediated by the Catholic Church. The following week, the leading groups of the democratic resistance declared their support for a church-mediated dialogue.

Cuba and the Soviet Union

The U.S. Government has made its positions on Central American issues clear to both the Cuban and Soviet Governments. In particular, we have communicated our concerns regarding Cuban and Soviet military activities in and near Nicaragua. The Commission's analysis and recommendations reaffirmed the view that other governments should not expect the United States to support initiatives or measures that might legitimize a Cuban or Soviet role in the region.

On March 22, 1985, Nicaragua's Roman Catholic bishops expressed their "willingness to mediate in an internal diagloue." In doing so, the bishops explicitly recalled their Easter pastoral of April 22, 1984, which called for dialogue among "all Nicaraguans inside and outside the country ... [including] Nicaraguans who have taken up arms against the government." (The Sandinistas labeled the bishops' call for dialogue "a criminal suggestion" and banned the Easter pastoral from publication; after an international outcry they allowed it to be published in *La Prensa*.)

The Contadora Document of Objectives calls for "national reconciliation efforts wherever deep divisions have taken place within society, with a view to fostering participation in democratic political processes...." The Sandinistas based their ascent to power on democratic claims and promised free elections. The Sandinistas claim to support the Contadora objectives but have rejected all proposals at dialogue with the democratic resistance. Instead of moving to open up the political system, the Sandinistas have taken increasingly repressive measures against the civic opposition. As of late June 1986, *La Prensa* was closed, the Catholic Church's newsletter and its radio station were closed, and the Catholic social service agency had been confiscated. In July, the Sandinistas expelled Bishop Pablo Antonio Vega, Vice President of the (Roman Catholic) Episcopal Conference of Nicaragua.

Families at a displaced persons settlement in El Salvador wash their clothes in washbasins built with AID funds as part of its employment projects.

Food donated by the U.S. Food for Peace program and distributed through the World Food Program provides 1,500 calories of food daily to each of 300,000 registered displaced persons in El Salvador.

APPENDIX A

U.S. Assistance to Central America, FY 1983–87[a]

$ millions

	Economic Assistance				*Military Assistance*[b]			
	ESF	Development Assistance	PL 480	Total	MAP	FMS	IMET	Total
Belize								
1983	10.0	6.7	0.0	16.7	0.00	0.00	0.07	0.07
1984	0.0	3.9	0.0	3.9	0.05	0.00	0.05	0.55
1984 supplemental	10.0	1.4	0.0	11.4	0.00	0.00	0.00	0.00
1985	4.0	6.3	0.0	10.3	0.50	0.00	0.10	0.60
1986 allocation	1.9	6.6	0.0	8.5	0.48	0.00	0.07	0.55
1987 request	3.0	7.5	0.0	10.5	1.00	0.00	0.10	1.10
Costa Rica								
1983	157.0	27.2	28.2	212.4	2.50	0.00	0.13	2.63
1984	70.0	15.0	22.5	107.5	2.00	0.00	0.13	2.13
1984 supplemental	60.0	7.1	0.0	67.1	7.00	0.00	0.00	7.00
1985	160.0	13.7	21.4	195.1	11.00	0.00	0.23	11.23
1986 allocation	120.6	10.9	23.0	154.5	2.32	0.00	0.19	2.58
1987 request	150.0	16.0	18.0	184.0	3.10	0.00	0.25	3.35
El Salvador								
1983	140.0	58.8	43.1	241.9	33.50	46.50	1.30	81.30
1984	120.2	41.1	51.1	212.4	45.00	18.50	1.30	64.80
1984 supplementals	90.0	21.1	0.0	111.1	131.75	0.00	0.00	131.75
1985	195.0	66.7	52.6	314.3	124.75	10.00	1.50	136.25
1986 allocation	177.0	81.1	50.8	308.9	125.37	0.00	1.44	126.81
1987 request	240.0	85.0	52.7	377.7	134.65	0.00	1.60	136.25
Guatemala								
1983	10.0	12.2	4.4	26.6	0.00	0.00	0.00	0.00
1984	0.0	4.4	11.6	16.0	0.00	0.00	0.00	0.00
1984 supplemental	0.0	15.6	0.0	15.6	0.00	0.00	0.00	0.00
1985	12.5	42.4	25.4	80.3	0.00	0.00	0.46	0.46
1986 allocation	47.9	36.2	18.4	102.5	0.00	0.00	0.29	0.29
1987 request	70.0	40.0	23.7	133.7	10.00	0.00	0.50	10.50
Honduras								
1983	56.0	31.2	14.0	101.2	27.50	9.00	0.80	37.30
1984	40.0	31.0	19.3	90.3	40.00	0.00	0.94	40.94
1984 supplemental	72.5	7.3	0.0	79.8	36.50	0.00	0.00	36.50
1985	75.0	37.4	18.4	130.8	66.30	0.00	1.10	67.40
1986 allocation	61.3	43.2	18.3	122.8	78.66[c]	0.00	1.05	79.71
1987 request	90.0	51.0	17.8	158.8	87.50	0.00	1.30	88.80
Panama								
1983	0.0	6.2	1.0	7.2	0.00	5.00	0.45	5.45
1984	0.0	10.7	1.0	11.7	0.00	5.00	0.50	5.50
1984 supplemental	30.0	4.0	0.0	34.0	8.00	0.00	0.00	8.00
1985	20.0	14.8	0.0	34.8	10.00	0.00	0.59	10.59
1986 allocation	5.7	17.2	0.0	22.9	3.83	3.83	0.57	8.23
1987 request	26.0	18.1	0.0	46.1	9.80	4.00	0.75	14.55

Continued on p. 27

Regional Programs	Economic Assistance				Military Assistance[b]			
	ESF	Development Assistance	PL 480	Total	MAP	FMS	IMET	Total
1983	0.0	19.4	NA[c]	19.4	NA	NA	NA	NA
1984	0.0	15.5	NA	15.5	NA	NA	NA	NA
1984 supplemental	28.0	9.2	NA	37.2	NA	NA	NA	NA
1985	70.0	50.6	NA	120.6	NA	NA	NA	NA
1986 allocation	51.7	47.0	NA	98.7	NA	NA	NA	NA
1987 request	75.0	70.0	NA	145.0	NA	NA	NA	NA
Central America Total								
1983	373.0	161.7	90.7	625.4	63.50	60.50	2.75	126.75
1984	230.2	121.6	105.5	457.3	87.50	23.50	2.92	113.92
1984 supplementals	290.5	65.7	0.0	356.2	183.25	0.00	0.00	183.25
1985	536.5	231.9	117.8	886.2	212.55	10.00	3.98	226.53
1986 allocation	466.1	242.2	110.5	818.8	210.66[d]	3.87	3.61	218.10
1987 request	656.0	287.6	112.2	1055.8	246.05	4.00	4.50	254.55

[a]In addition, State Department, Peace Corps, and USIA programs included in the Central America initiative total $11.5 million (1984 supplemental), $86.6 million (1985), $70 million (1986), and $70 million (1987 request).

[b]MAP—military assistance program, FMS—foreign military sales, IMET—international military education and training.

[c]Not applicable.

[d]Includes $20 million for Honduras under 506(a) drawdown authority.

APPENDIX B:
Summary of Commission Report

OUTLINE

The report, which was dedicated to Senator Henry Jackson and transmitted to the President on January 10, 1984, consisted of the following chapters:

1. Introduction and basic themes.
2. Placed crisis in larger hemispheric context.
3. Provided historical perspective.
4. Examined prospects for economic and political development; presented recommendations.
5. Discussed social issues—health and education particularly—and made recommendations.
6. Explored security issues and recommended U.S. action.
7. Looked at diplomatic aspects and offered recommendations on pursuing negotiated settlements.
8. Conclusion.

—On security and diplomatic issues, the report dealt with El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica. Panama and Belize were included for discussion of development programs.

MAJOR THEMES SET FORTH IN THE COMMISSION REPORT

—The crisis in Central America is acute. Its roots are indigenous—in poverty, injustice, and closed political systems. But world economic recession and Cuban-Soviet-Nicaraguan intervention brought it to a head.

—The crisis will not wait. It must be addressed at once and simultaneously in all its aspects. Ultimate resolutions depend on economic progress, social and political reform. But insurgencies must be checked if lasting progress is to be made on these fronts.

—Indigenous reform, even indigenous revolution, is no threat to the United States. But the intrusion of outside powers exploiting local grievances for political and strategic advantage is a serious threat. Objective of U.S. policy should be to reduce Central American conflicts to Central American dimensions.

—United States has fundamental interests at stake: Soviet-Cuban success and resulting collapse of Central America would compel substantial increase in our security burden or redeployment of forces to detriment of vital interests elsewhere.

—As a nation we have deep and historic interest in promotion and preservation of democracy. Report concludes that pluralistic societies are what Central Americans want and are essential to lasting solutions. In this case, our strategic interests and our ideals coincide.

—Central Americans desperately need our help, and we have a moral obligation to provide it. The United States and other nations can make a difference. But, in the end, solutions will depend on the efforts of Central Americans themselves.

—Although there is urgent need for action, no quick solutions can be expected. The United States must make a long-term commitment and stick to a coherent policy.

—That policy can and should be bipartisan. Commission found wide consensus on principles and objectives.

POLITICAL AND ECONOMIC DEVELOPMENT

—Central American economies grew substantially during the 1960s and early 1970s. But income distribution was highly inequitable, except in Costa Rica and Panama.

—Trend toward more pluralistic political systems in El Salvador, Guatemala, and Nicaragua reversed in early 1970s.

—World recession and rising political violence had catastrophic effect on region's economies in late 1970s, early 1980s. All have declined dramatically. El Salvador's gross domestic product is off 25% since 1978.

—Even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980.

—There must be substantial increase in outside assistance.

—Commission believes economic development cannot be separated from political and social reform. Objective must be parallel development of pluralistic societies and strong economies with far more equitable distribution of wealth.

—We propose a program of U.S. assistance designed to promote economic growth, democratization, and greater social equity.

—We encourage the greatest possible involvement of the U.S. private sector in the stabilization effort. Recommend the formation of an emergency action committee of private sector personalities to provide advice on new private-public initiatives to spur growth and employment.

Recommendations: An Emergency Stabilization Program

—Leaders of the United States and Central America should meet to initiate a comprehensive approach to economic development of the region and reinvigoration of the Central American Common Market.

—A $400 million supplemental in FY 1984, over and above the $477 million now in the budget for the seven countries. There is urgent need to stabilize economies now going downhill very fast.

—Focus this assistance on labor-intensive infrastructure projects and housing. Unemployment is a critical problem—politically and economically.

—Establish a program to provide U.S. Government guarantees for short-term trade credits. External credit has dried up. Without it economies cannot be reactivated.

—Provide an emergency loan to the Central American Common Market to permit the reactivation of this vital organization. Lack of resources in the market to settle trade accounts among the countries has stalled it.

—U.S. Government should take an active role in the efforts to resolve the external debt problems of Central America and should encourage the countries that have not done so to seek multilateral rescheduling.

—Also encourage commercial banks to renegotiate at the lowest possible interest rates.

Recommendations: Medium and Long-Term

—Commission estimates $24 billion in net external exchange inflows needed by 1990 to foster a growth rate of 3% per capita, returning these countries to pre-recession levels of per capita wealth. About half—$12 billion—is expected to come from international institutions,

other donor countries and loans, and investments from private sector sources.

—U.S. Government will have to provide as much as $12 billion if these financing needs are to be met.

—We propose, in this context, a program of $8 billion over next 5 fiscal years (FY 1985–89) in U.S. Government assistance. This would be divided very roughly into about $6 billion in appropriated funds and about $2 billion in contingent liabilities covering guarantees, insurance, and the like.

—Compared with current projections for FY 1985–89, these contributions would constitute an increase of about $2.8 billion in appropriated funds and $0.7 billion in contingent liabilities over the 5-year period.

—Urge that Congress authorize multiyear funding of this program. Commission believes firm, long-term commitment is essential.

—To give form and structure to the development effort, suggest establishment of the Central American Development Organization (CADO). Perhaps one-quarter of U.S. aid could be channeled through CADO.

—CADO would consist of the United States and those countries of the seven willing to commit themselves to internal democracy and reform. Continued membership would depend on demonstrated progress toward those goals. Adherence to regional security pact also required.

—Nicaragua could participate by meeting these conditions.

—CADO's principal body would be a Development Council with tripartite, ILO [International Labor Organization]-style representation. Would assess program and progress toward economic growth, democratization, reform, and preservation of human rights.

—Other democracies would be invited to join.

Additional Recommendations

—Expanded assistance from the U.S. Government for democratic institutions and leadership training—neighborhood groups, cooperatives, binational centers, and visitor programs for leaders of labor unions, local governments, and other organizations.

—Require a firm commitment by the Central Americans to economic policies, including reforms in tax systems, to encourage private enterprise and individual initiative, to create favorable investment climates, to curb corruption where it exists, and to spur balanced trade.

—Urge extension of duty-free trade to Central America by other major trading nations.

—Review nontariff barriers to imports from Central America with a view toward using whatever flexibility that exists within the framework of multilateral agreements to favor Central American products.

—Establishment of the Central American Development Corporation—a privately owned venture-capital company which could initially be financed by a loan from the U.S. Government.

—Recommend that the United States join the Central American Bank for Economic Integration.

—Technical and financial support for export promotion and a U.S. Government review of nontariff barriers to Central American imports.

—Expanded availability of insurance guarantees for new investments from the U.S. Government's Overseas Private Investment Corporation.

—Increased focus in assistance programs on small business and accelerated agricultural development—particularly in production of food for domestic consumption.

HEALTH AND EDUCATION

—Democracy and prosperity in the region require accelerated human development. Hunger, disease, and illiteracy sap a people's vitality and impede the growth of viable democratic institutions.

—Literacy rates are unacceptably low in several countries (e.g., Guatemala, 45%; El Salvador, 63%; Honduras, 60%), handicapping education efforts seriously.

—Widespread malnutrition also handicaps education by sending physically and mentally underdeveloped children to school.

—Goals should include a reduction of malnutrition, elimination of illiteracy, expanded education, health, and housing opportunities.

—Initial efforts must be to increase food assistance to Central America through the PL 480 programs.

—Commission calls for formation, under direction of the Peace Corps, of a Literacy Corps and a Central American Teachers Corps.

—To meet needs in higher education, U.S. Government scholarships should be raised to approximately 10,000 over 4–6 years, a level comparable to Cuban and Soviet Union efforts.

—Educational reform can also be encouraged in the areas of technical and vocational education through the expansion of the International Executive Service Corps and through closer cooperation with Central American universities to improve the quality of education.

—Judicial systems in Central America can be strengthened by providing resources for training judges, judicial staff, and public prosecutors.

—Continuation and expansion of existing programs for disease control and eradication, as well as immunization and oral rehydration.

—Training of primary health workers, especially nurses, should be expanded and the means developed to integrate private and public financing of health services.

—Assistance programs should target the area's severe housing shortage.

—Training of public administrators required to improve public service.

—U.S. Government should provide more resources to meet critical problem of refugees and displaced persons—more than 1 million of them need help.

SECURITY ISSUES

—In El Salvador there are two separate conflicts: (1) between those seeking democratic reform and those seeking to retain their privileges; (2) between Marxist-Leninist guerrillas and those who oppose Marxism-Leninism.

—In discussing the latter we identify three general propositions about such guerrilla movements:

(1) They depend on external support. Without it they are unlikely to succeed.

(2) They develop their own momentum which reform alone cannot stop.

(3) Victorious, they create totalitarian regimes, even though they have enlisted support of democratic elements in order to project democratic, reformist image.

—External support comes from Soviet Union, Cuba, and now Nicaragua. Cuba has developed into a leading military power through Soviet assistance. Since Sandinista victory, Soviets have come around to support Cuban strategy of armed road to power in Central America.

—There are serious strategic implications for the United States in Soviet-Cuban support for armed insurgency in the region.

—Triumph of hostile forces there could require us to devote large resources to defend our southern approaches.

—This could mean either substantially increased defense burden for the United States or redeployment of forces to the detriment of our interests elsewhere.

—Threat to our shipping lanes in the Caribbean.

—Increased violence and dislocation in the area from which we could not isolate ourselves.

—Erosion of our power to influence events worldwide as we are perceived as unable to influence events close to home.

El Salvador

—The war is stalemated, a condition to the ultimate advantage of the guerrillas.

—U.S. military assistance is inadequate to permit modern, humane, and successful counterinsurgency.

—Commission recommends that the United States provide significantly increased levels of military assistance for greater mobility, more training, higher force levels, and more equipment.

—Assistance is to be conditioned through legislation on terminating death squads, progress toward democracy, and establishment of the rule of law.

—In Guatemala, such assistance should only be provided if the same terms are met.

—Increased military assistance also needed for Honduras to build a credible deterrent and to meet renewed efforts at insurgency.

—Commission concludes that U.S. security interests are importantly engaged in Central America. Larger program of military assistance needed, as well as expanded support for economic growth and social reform.

—Success will depend on an end to massive violations of human rights and the neutralization of external support for the insurgencies.

THE SEARCH FOR PEACE

—A successful U.S. political strategy in Central America requires resources to promote economic growth; vigorous efforts to advance democracy and reform; other inducements and penalties.

—General strategic objective of U.S. diplomacy in Central America should be to reduce the civil wars, national conflicts, and military preparations to Central American dimension.

—Specifically, we should seek to stop the war and killing in El Salvador. Create conditions under which Nicaragua becomes a peaceful and democratic member of the Central American community. And open the way for democratic development in all countries.

—Commission calls for negotiations in El Salvador between guerrillas and the government to be elected in March to establish conditions for later legislative and municipal elections in which all could participate: electoral commission with FMLN/FDR representation, ceasefire, and end to all violence; international observation of elections.

—Adequate economic and military assistance from the United States can help to achieve such a settlement.

—Commission believes military stalemate works against rather than for a political settlement based on the popular will.

—In Nicaragua, consolidation of a Marxist-Leninist regime would create a permanent security threat. Nicaragua's mainland location makes it a crucial stepping-stone to promote armed insurgency in Central America. Cuban personnel (2,000 military advisers and 6,000 civilian officials); several hundred Soviet, East European, Libyan, and PLO [Palestine Liberation Organization] advisers; extensive arms deliveries (13,000 tons in 1983) add an external dimension to the threat posed by Nicaragua to its neighbors.

—What gives the current situation its special urgency is the external threat posed by the Sandinista regime in Nicaragua; supported by Cuban military strength; backed by Soviet weapons, guidance, and diplomacy; and integrated into the Cuban network of intelligence and subversion.

—Central American leaders believe pluralistic political orders are essential to long-term security.

—An alternative would be an attempt at containment. But that would threaten militarization of the isthmus—the creation of garrison states. Democracy would wither. And the United States could find itself as surrogate policeman.

—Commission proposes comprehensive regional settlement based on:

(1) Respect for sovereignty and nonintervention.

(2) Verifiable commitments to nonaggression and an end to all attempts at subversion—covert or overt.

(3) Limitations on arms and sizes of armed forces. Prohibition of foreign forces, bases, and advisers.

(4) No military forces, bases or advisers of non-Central American countries would be permitted.

(5) Commitment to internal pluralism and free elections in all countries.

(6) Provision for verification of all agreements.

(7) Establishment of an intergovernment council to meet regularly to review compliance.

(8) Adherence to the overall agreement would be required for membership in the Central American Development Organization.

—The United States would support the agreement and provide assistance and would commit itself to respect results of elections within countries as long as principles of pluralism at home and restraint abroad are observed.

—Commission's proposal based on and amplifies 21 points of the Contadora Group.

—Commission fully endorses Contadora efforts.

—Finally, majority of Commission opposes dismantling existing incentives and pressures for the regime in Managua to negotiate seriously.

—As for Cuba, Commission sees little possibility of separating it from Soviet Union. But the United States should be prepared to negotiate seriously if Cuba were to show itself prepared for genuine coexistence, dropping support for insurgency in Central America and revolutionary violence elsewhere in the world.

—As for Soviet Union, establishment of Soviet military base in Nicaragua is not the major concern. Before that could have happened, the crisis would have reached proportions not containable in Central American dimensions.

—There is little promise in negotiating with the Soviet Union over Central America. Soviets would seek to cast such negotiations in terms of sphere of influence, an unacceptable concept for the United States.

APPENDIX C
Central America Democracy, Peace, and Development Initiative

Section 701 of the International Security and Development Cooperation Act of 1985 (Public Law 99-83), enacted August 8, 1985, added the following "Chapter 6—Central America Democracy, Peace, and Development Initiative" to the Foreign Assistance Act of 1961:

SEC. 461. STATEMENT OF POLICY.—(a) The Congress finds that—

(1) the building of democracy, the restoration of peace, the improvement of living conditions, and the application of equal justice under law in Central America are important to the interests of the United States and the community of American States; and

(2) the interrelated issues of social and human progress, economic growth, political reform, and regional security must be effectively dealt with to assure a democratic and economically and politically secure Central America.

(b)(1) The achievement of democracy, respect for human rights, peace, and equitable economic growth depends primarily on the cooperation and the human and economic resources of the people and governments of Central America. The Congress recognizes that the United States can make a significant contribution to such peaceful and democratic development through a consistent and coherent policy which includes a long-term commitment of assistance. This policy should be designed to support actively—

(A) democracy and political reform, including opening the political process to all members of society;

(B) full observance of internationally recognized human rights, including free elections, freedom of the press, freedom of association, and the elimination of all human rights abuses;

(C) leadership development, including training and educational programs to improve public administration and the administration of justice;

(D) land reform, reform in tax systems, encouragement of private enterprise and individual initiative, creation of favorable investment climates, curbing corruption where it exists, and spurring balanced trade;

(E) the establishment of the rule of law and an effective judicial system; and

(F) the termination of extremist violence by both the left and the right as well as vigorous action to prosecute those guilty of crimes and the prosecution to the extent possible of past offenders.

(2) The policy described in paragraph (1) should also promote equitable economic growth and development, including controlling the flight of capital and the effective use of foreign assistance and adhering to approved programs for economic stabilization and fiscal responsibility. Finally, this policy should foster dialog and negotiations—

(A) to achieve peace based upon the objectives of democratization, reduction of armament, an end to subversion, and the withdrawal of foreign military forces and advisers; and

(B) to provide a security shield against violence and intimidation.

(3) It is the purpose of this chapter to establish the statutory framework and to authorize the appropriations and financing necessary to carry out the policy described in this section.

(c) The Congress finds, therefore, that the people of the United States are willing to sustain and expand a program of economic and military assistance in Central America if the recipient countries can demonstrate progress toward and a commitment to these goals.

SEC. 462. CONDITIONS ON FURNISHING ASSISTANCE.—The President shall ensure that assistance authorized by this Act and the Arms Export Control Act to Central American countries is furnished in a manner which fosters demonstrated progress toward and commitment to the objectives set forth in section 461. Where necessary to achieve this purpose, the President shall impose conditions on the furnishing of such assistance. In carrying out this section, the President shall consult with the Congress in regard to progress toward the objectives set forth in section 461, and any conditions imposed on the furnishing of assistance in furtherance of those objectives.

SEC. 463. PEACE PROCESS IN CENTRAL AMERICA.—The Congress—

(1) strongly supports the initiatives taken by the Contadora group and the resulting Document of Objectives which has been agreed to by Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua and which sets forth a framework for negotiating a peaceful settlement to the conflict and turmoil in the region; and

(2) finds that the United States should provide such assistance and support as may be appropriate in helping to reach comprehensive and verifiable final agreements, based on the Document of Objectives, which will ensure peaceful and enduring solutions to the Central American conflicts.

SEC. 464. ECONOMIC ASSISTANCE COORDINATION.—(a) The Congress finds that participation by Central American countries in an effective forum for dialog on, and the continuous review and advancement of, Central America's political, economic, and social development would foster cooperation between the United States and Central American countries.

(b) It is the sense of the Congress that—

(1) the President should enter into negotiations with the countries of Central America to establish a Central American Development Organization (hereafter in this section referred to as the "Organization") to help provide a continuous and coherent approach to the development of the Central American region; and

(2) the establishment of the Organization should be based upon the following priniciples:

(A) Participation in the Organization should be open to the United States, other donors, and those Central American countries that commit themselves to, among other things, respecting internationally recognized human rights, building democracy, and encouraging equitable economic growth through policy reforms.

(B) The Organization should be structured to include representatives from both the public and private sectors, including representatives from the labor, agriculture, and business communities.

(C) The Organization should meet periodically to carry out the functions described in subparagraphs (D) and (E) of this paragraph and should be supported by a limited professional secretariat.

(D) The Organization should make recommendations affecting Central American countries on such matters as—

(i) political, economic, and social development objectives, including the strengthening of democratic pluralism

and the safeguarding of internationally recognized human rights;

(ii) mobilization of resources and external assistance needs; and

(iii) reform of economic policies and structures.

(E) The Organization should have the capacity for monitoring country performance on recommendations issued in accordance with subparagraph (D) of this paragraph and for evaluating progress toward meeting such country objectives.

(F) To the maximum extent practicable, the United States should follow the recommendations of the Organization in disbursing bilateral economic assistance for any Central American country. No more than 75 percent of such United States assistance in any fiscal year should be disbursed until the recommendations of the Organization for that fiscal year have been made final and communicated to the donor countries. The limitation on disbursements contained in the preceding sentence should apply only to recommendations made final and communicated to donor countries prior to the fourth quarter of such fiscal year. The United States representative to the Organization should urge other donor countries to similarly implement the recommendations of the Organization.

(G) The administrator of the agency primarily responsible for administering part I of this Act, or his designee, should represent the United States Government in the Organization and should carry out his functions in that capacity under the continuous supervision and general direction of the Secretary of State.

(c) Subject to subsection (d)(2), the President is authorized to participate in the Organization.

(d)(1) The administrator of the agency primarily responsible for administering part I of this Act, under the supervision and direction of the Secretary of State, shall prepare a detailed proposal to carry out this section and shall keep the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate fully and currently informed concerning the development of this proposal.

(2) The President shall transmit to the Committee of Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate a copy of the text of any agreement, which he proposes to sign, that would provide for the establishment of and United States participation in the Organization no less than sixty days prior to his signature. During that sixty-day period there shall be full and formal consultations with and review by those committees in accordance with procedures applicable to reprogramming notifications pursuant to section 634A of this Act.

SEC. 465 AUTHORIZATIONS FOR FISCAL YEARS 1988 AND 1989.—(a) In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to the President, for the purpose of furnishing nonmilitary assistance for Central American countries, $1,200,000,000 for each of the fiscal years 1988 and 1989, which are authorized to remain available until expended.

(b) For the purpose of providing the assistance described in subsection (a), funds appropriated pursuant to the authorizations in that subsection may be transferred by the President for obligation in accordance with the authorities of part I of this Act (including chapter 4 of part II), the Peace Corps Act, the Migration and Refugee Assistance Act of 1962, the United States Information and Education Exchange Act of 1948, the Mutual Educational and Cultural Exchange Act of 1961, the National Endowment for Democracy Act, and the State Department Basic Authorities Act of 1956.

SEC. 466. DEFINITIONS.—For the purposes of this chapter, the term "Central American countries" includes Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and regional programs which benefit such countries.

APPENDIX D
The Central American Development Organization

The Commission and the Central American Initiative advocated the creation of a broadly representative regional body to discuss broad policy issues to advance the cause of democracy and development.

In an amendment to the Foreign Assistance Act enacted in July 1985, Congress authorized the President to undertake efforts with the countries of Central America to establish a Central American Development Organization (CADO), to "help provide a continuous and coherent approach to the development of the Central American region." A CADO, composed of government, business, and labor representatives from those countries agreeing to cooperate, would recommend political, social, and economic policies, including the use of foreign assistance, in order to promote human rights, equitable economic growth, and democracy in the region.

Since July 1985, labor, business, and government representatives in the United States have met jointly on various occasions to discuss the desirability of organizing a CADO. Once a consensus was achieved in Washington, the three sectors initiated the process of soliciting the views of Central Americans. Thus far, reactions have generally been positive, and there has been movement in several countries toward establishing national tripartite groups. The United States will continue to explore the feasibility of organizing a CADO on a regional basis. In September 1986, the United States and several Central American representatives will attend a seminar on CADO in San Jose, Costa Rica.

Additional Information

This study reports on the implementation of the strategy for Central American development adopted by the United States following the recommendations of the National Bipartisan Commission on Central America.

The Commission's diverse recommendations form a comprehensive strategy to respond to a complex, interrelated set of problems. All aspects of a dynamic situation—political, economic, social, military, and diplomatic—are present at the same time and must be addressed simultaneously if the strategy is to work.

For a fuller understanding of what is happening in Central America, how United States interests are affected, and how our policies are working, it is important to supplement the institutional and developmental focus of this report with additional information on the security and diplomatic aspects of the situation.

The threat to Nicaragua's neighbors and the collective response is documented in Special Report No. 132, " 'Revolution Beyond our Borders': Sandinista Intervention in Central America," September 1985.

The current situation in El Salvador is analyzed in detail in Special Report No. 144, "The Situation in El Salvador," April 1986.

The current situation in Nicaragua is the subject of several publications. Special Report 142, "Documents on the Nicaraguan Resistance: Leaders, Military Personnel, and Program," March 1986, analyzes resistance forces in detail. Conditions in Nicaragua are covered in a series issued by the State Department's Office of Public Diplomacy for Latin America and the Caribbean. They include: "Sandinista Prisons," July 1986; "The Challenge to Democracy in Central America," June 1986; "Dispossessed: the Miskito Indians in Sandinista Nicaragua," March 1986; "Inside the Sandinista Regime: A Special Investigator's Perspective," February 1986; "The 72-Hour Document: The Sandinista Blueprint for Constructing Communism in Nicaragua," February 1986; "The Sandinista Military Buildup," May 1985; and "The Soviet-Cuban Connection in Central America and the Caribbean," March 1985.

On U.S. support for democracy, recent steps in strengthening the rule of law are summarized in Special Report 145, "Hemispheric Cooperation in the Administration of Justice," April 1986. "Democracy in Latin America and the Caribbean" is the subject of Current Policy No. 605, August 1984, which provides electoral statistics and summaries for the entire region.

Additional information on development issues may be found in the spring 1986 issue of AID's *Horizons* magazine and in State Department Special Report No. 124, "Sustaining a Consistent Policy in Central America: One Year After the National Bipartisan Commission Report," April 1985.

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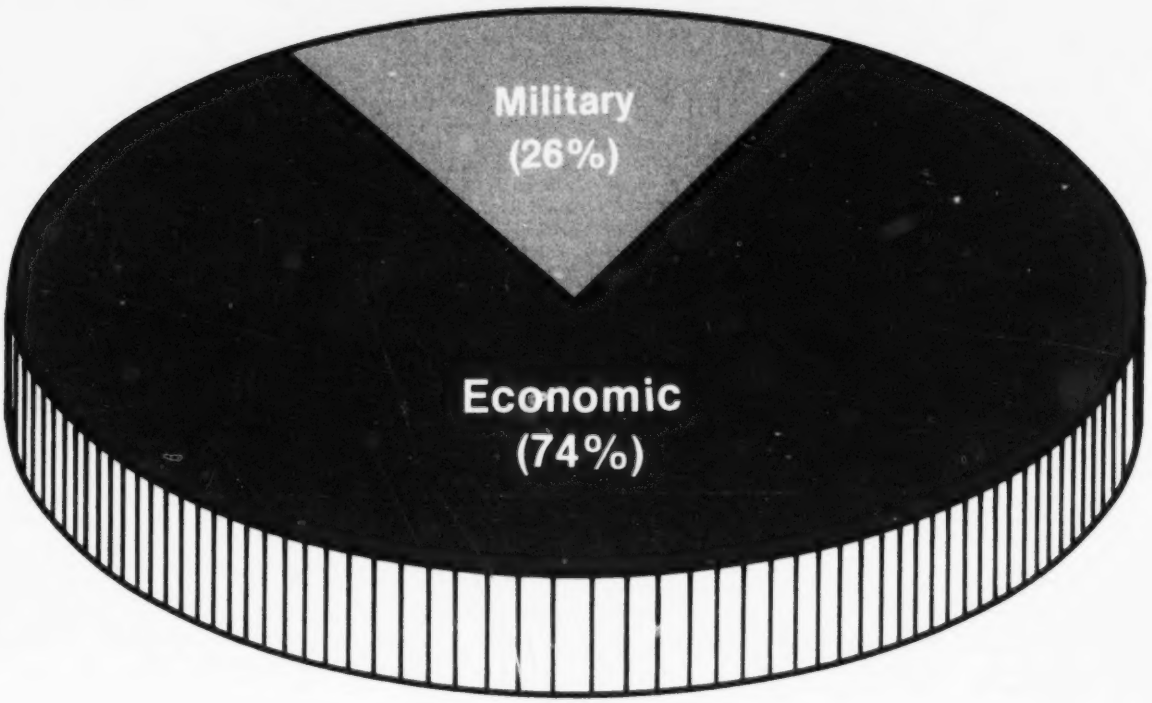
U.S. Aid to Central America, FY 1983-86



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